STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

TUESDAY, FEBRUARY 17, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.
Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Federation of Independent Business:
Andrew, J., Director of Provincial Affairs (Ontario)
Botting, D., Executive Director, Provincial Affairs

From the Ontario Road Builders' Association:
Lawrence, C. E., President
Ryan, A., Executive Director
Hunt, H., First Vice-President
Seegmiller, H., Immediate Past President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 17, 1987

The committee met at 10:17 a.m. in room 230.

BUDGET REVIEW

Mr. Chairman: The meeting is open.

Mr. Ashe: With the changed timing, apparently, of the proposed commencement of the third session of this parliament from April 21 to April 28, it might be appropriate that we go on the record, through whatever is appropriate, through you, Mr. Chairman, to try to get concurrence from the three House leaders or the three whips, whatever is needed, to allocate time to this committee, if needed, in the week of April 20. If we do not end up needing it or if we need only part of the week, so be it, we have it; but if we need it, it will be there. In the meantime, I do not think that should interfere at all with the planning that is being done for the committee's important trip to Washington.

Mr. Chairman: Any other discussion?

Mr. Morin-Strom: I do not think we should be pushing for additional weeks of hearings. My view, and I think the view of our party, is that four weeks is sufficient during the break and that further work should be deferred until we are back in session.

Mr. Ashe: Have you any idea of what the committee will be doing when you say that? I put that out in all sincerity.

Mr. Morin-Strom: I know we are reviewing the budget for the first three weeks.

Mr. Ashe: No.

Mr. Chairman: We are trying to cram that into two weeks, and then we are hoping to do Bill 116--

Mr. Ashe: Which is a huge piece of important legislation.

Mr. Chairman: --and possibly have time to finish our report on corporate concentration.

Mr. Ashe: Yes. We have not yet finished that, which was started six months ago.

Mr. McFadden: On the basis of the strong recommendation we got from the Ministry of Consumer and Commercial Relations in relation to Bill 116 and also from the industry people who were here, I think we should try to finish Bill 116 before the House comes back. Presumably, all we should have on our plate by that time would likely be some last minute stuff before it can be reported back.

As you will recall, the ministry estimated it would take approximately 50 hours initially to deal with Bill 116. I gather that if we limit the number of public submissions, we are probably back to 30 hours or so. If the amendments coming before us are quite complex or conflicting, it could well generate more than 30 hours of time, as I expect it probably will.

In view of the problems the trust industry has had over the last several years, it should be a priority of this committee as well as of the House to deal with the trust legislation when the budget matters are completed. As a result of that, it would seem to me that we have an obligation at least to try to get some additional times so that this will all be finished by the time the House comes back. I think that was a very clear desire of the minister, ministry and industry people.

I do not think this has anything to do with party stuff. It is just something we should get on with and finish. I do not want to sit all that week, but perhaps even a day or two could be very valuable to make a good shot at some additional material or at winding it up. I suggest we try to get a day or two further during the week of the 20th so we will have some chance of completing that legislation by the time the House comes back.

Mr. Epp: Can I suggest something? You are talking about sitting the week of the 13th, because that is the week that has been take away, is it not?

Mr. Ashe: We are talking about the week that is available.

Mr. Epp: Yes, the week of the 13th was taken away, so you are talking about sitting the week of the 13th.

Mr. Ashe: No, I am not. My motion was not about the week of the 13th; it was about the week of the 20th.

Mr. Epp: But the week of the 13th is your fifth week, Mr. Ashe, as I understand it.

Mr. Ashe: The original draft of it was.

Mr. Chairman: Mr. Ashe, I did not hear a motion. Did you make a motion? Do you wish to?

Mr. Ashe: I thought it was a motion, but that is fine.

Mr. Chairman: Do you wish to go ahead?

Mr. Ashe: I thought I did.

Mr. Chairman: All right. Sorry.

Mr. Ashe: I definitely said the week of the 20th and, frankly, I will tell you why. I may be the only one with a conflict, but with the removal of the 20th as a tentative week for this committee, I was put on the standing committee on the Ombudsman to deal with the Argosy report that week. I do not know whether anybody else has that kind of conflict. Some others may have been put elsewhere because that week was taken away.

It is a bit selfish when I put it that way, but that is the reality of what happened once it got removed.

Mr. Chairman: Mr. Epp, are you finished?

Mr. Epp: I just wanted to clarify that and I am glad I asked that, because I felt we were talking about the fifth week, and that would have become the 13th, but you are talking about the last week.

Mr. Ashe: Yes, because that is a pretty full week of committees, as I recall. I presume the 20th had nobody, because it became available only at the last minute.

Mr. Morin-Strom: I appreciate the personal problems the members have and I am sure, purely from a personal point of view, that the member would probably rather not be here at all once the House broke.

However, I think we have a duty and I suppose duty requires some sense of sacrifice. With what I see on the committee's agenda, I really do not see how you are going to discharge your mandate within the time frame you have now, and I say that sincerely. It is a question of what the committee wants to put first. It strikes me that if the committee is conscientiously going to perform and report, as the expectation is presumably from the assembly, it is going to have to have all the time it can muster. That is my objective view.

In terms of whether members would rather be somewhere else, I think probably all of us would. If there is some potential for flexibility in terms of obtaining another week that we thought was there last week, that should be pursued now so members do not make commitments for that additional week.

Mr. Chairman: There is something the committee should be aware of, and that is that your chairman was already lobbying to keep the fifth week at the time we were talking about, the 13th, and at that time I think it was the week that members of the committee could sit. Maybe in Mr. Ashe's case and others that is no longer the case.

When the argument was put to me that other committees are sitting only four weeks and we should not sit any more, I asked that it be an optional week, that we could sit only if we needed. The result was in the negative. It is my understanding that we are not going to get anywhere with the results of this discussion unless we have all three House leaders in agreement.

Mr. Morin-Strom: I have some problems with this suggestion, as I have indicated. However, I have not had the experience of being on the House in recent months. As a result of that, I think we would be more productive if we waited until Jim Foulds was here. He is expected to be here this afternoon, definitely by tomorrow morning. At this point I would have to vote against it because I know our party's position has been to minimize the number of weeks on committee. If we want to have a more productive schedule, I would move that we defer this matter until tomorrow morning at 10 o'clock.

Mr. Haggerty: Just speaking on that point--

Mr. Chairman: This is the point that Mr. Morin-Strom posed?

Mr. Haggerty: Yes. If we are going to get into this type of hassle, then tomorrow perhaps our witness will be here at 10 o'clock. If we delay that, I do not think we accomplish too much then.

Mr. Chairman: I suggest that if it is delayed, it be delayed to a time at which we do not have a witness scheduled and find some time in the

week. I am sure we can. We can have a debate at that time if that is agreed, not tomorrow at 10 o'clock, because we do have a witness scheduled. We could even do it this afternoon at 3:30.

Mr. McFadden: I cannot be here at that time, but that does not matter. I was going to suggest maybe tomorrow after the Ontario Federation of Students.

Mr. Chairman: Is it agreed, Mr. Ashe, members of the committee, that we continue this debate at another time when Mr. Foulds is available?

Mr. Ashe: No problem.

Mr. Chairman: Mr. McFadden, you do not want it dealt with this afternoon, because you cannot be here. All right. Any other business that members wish to discuss before Ms. Andrew arrives?

Mr. Morin-Strom: I would like to ask about this trip to Washington. I am not aware of this. When would it likely be, what is the purpose and to which issue is it related? How long might the time frame be?

Mr. Chairman: It was proposed last week by Mr. McFadden that in view of certain trade bills that are before Congress at this time, the committee would benefit the province by making an appearance in Washington. As a result of that, the House leaders agreed on Thursday afternoon to amend the motion so that we could travel outside North America. We have yet to take our budget to the Board of Internal Economy. I do not know whether you want to expand on that, Mr. McFadden, about anything in North America.

Mr. McFadden: My decision is part of the overall budget review, since a part of it has been trade and the impact of potential protectionist legislation in the United States. Both the House and the Senate in the month of March and into April are considering omnibus trade acts that are fairly sweeping in nature. In fact, the House, I gather, expects to have its bill marked up and ready to go by early April, and the Senate is on the same track. The administration has now recommended to Congress, or is about to, a fairly comprehensive trade package that is going to be very lengthy. In light of what the select committee recommended last year, it made sense to me that we act on one of the recommendations of that report, which was to have some exchange of visits between legislators in both countries.

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Second, for the purposes of our work, it made good sense for us to get definite firsthand information as to what they were doing and for us to make some points with American legislators as to Ontario's concerns and interests as they relate to our particular parties and as legislators for the province.

When David and I were in Washington on this issue with the Canadian parliamentary association group in September, we met with the Northeast-Midwest coalition. They were quite happy to set up a meeting and have us come back to meet with their people. All members of the House can pretty much speak with one voice in terms of concerns about protectionism, all kinds of new legislation, impediments and remedies that might be added into American law as it relates to Ontario industry.

It was a two-pronged thing: first, to make some points ourselves as to concerns we have and things we hope they will take into account when they are

considering their legislation; and second, for us to get an understanding of what they are doing, which could obviously form a part of any remarks or statements we want to provide to the government in connection with trade policy, attitude towards the United States or the impact that US trade policy might have on Ontario. I think there was a two-pronged or three-pronged thing involved in the recommendation. I would think that the best timing is clearly March, because that is when things are really on the go.

Mr. Morin-Strom: The first week we come back, in other words?

Mr. McFadden: The scheduling group has not met to deal with this.

Mr. Morin-Strom: That is the only week in March we are able to meet. Is that right?

Mr. Chairman: Yes. I have not been hearing remarks up until now. I was thinking you were talking about once we had our other work done.

Mr. McFadden: I think one of the problems you have, having reviewed the timing from what I have read in the last several days--

Mr. Ashe: It will be too late then.

Mr. McFadden: We may hear what they have done. It seems to me that one of the possible benefits we could have is that in certain areas it might specifically relate to Ontario or Canada. We could make some points there that might have some effect as they are considering it.

My feeling is that we probably should be more in the formative stage than just going down to find out what they just did. It could have some effect one way or the other, and it may in fact have some effect, in the sense that during our work, we may ferret out some information that may be of use to the government as well, or to any level of government that has any interest in what we may find out.

Mr. Chairman: Perhaps you can explain again what will happen in March that will be too late in April.

Mr. McFadden: The House ways and means committee and the Senate finance committee will be seriously moving to mark up and clearly draft their trade acts. I think the House ways and means committee will be further advanced because they are taking HR.4800.

Mr. Bond: That is right.

Mr. McFadden: They are modifying and changing it, and we now have a copy of that. The Senate did not proceed with a trade act last year but is intending to do that this year and has started the process right now.

The White House has given an outline of what it is proposing and, I gather within the week, will be going to the Congress with a full package for Congress to consider. I expect what will happen is that trade acts that will be initially presented to the House and Senate will not be identical. They could be, but they are probably not going to be identical and they may conflict to some extent with what the White House is doing. I think it is going to be a fairly complex process over the next few months.

It struck me that it might be useful to get our oar in relatively early in the process, rather than late in the process, if we are going to have any impact on any specific proposals we want to make in relation to steel, the auto pact or anything else. That is why I think that earlier rather than later is going to be more productive--for this province, at any rate.

Mr. Chairman: I just had not thought of the process moving that quickly, but you may well be right.

Mr. Morin-Strom: I certainly would like to endorse the concept of going to Washington again. I found the two trips we had the last two summers with the select committee on economic affairs to discuss free trade to be very valuable ones, particularly for ourselves obviously, but also to some extent in terms of passing on some of our concerns to American legislators and senior staff people.

It is a valuable exercise and one we should pursure if we can fit it in. I am not sure that the last week of March is any better than one of the first two weeks in April, given the three weeks we have. In fact, I suspect there may be, certainly in my case, some conflict in terms of completing something that is going on over the spring break. In my case, I hope I am going on the Nicaragua excursion and then going immediately to Washington, if that can be fitted in.

Mr. Haggerty: You cannot have it both ways.

Mr. Morin-Strom: No, that may be the case.

Mr. Chairman: You would not care to travel from Managua to Washington?

Mr. Morin-Strom: I suppose that is possible. It would be a circuitous route.

Mr. McFadden: May I suggest that the scheduling committee meet within the next two or three days to try to come up with a couple or three alternatives that can then be explored.

Mr. Chairman: I am sensing a concern to solidify the idea of this trip. I wonder if the scheduling committee could meet Thursday afternoon after the Ontario Teachers' Federation. Would that be a suitable time?

Mr. McFadden: Say at three o'clock.

Mr. Chairman: After three o'clock in the committee room, wherever that committee room may be.

Mr. McFadden: Right.

Mr. Chairman: Would that then exhaust the travel issue for this morning?

Looking at the schedule you have in front of you, I believe we do not yet have a brief from the Ontario Federation of Students. We do have a brief from everyone else, and I presume we will have that one shortly.

The federal budget may have some influence on our deliberations, although some of the media are suggesting it will not. In any event, would the

committee be interested in reviewing that budget when it is being presented? It will be presented tomorrow at 4:30 p.m., which would be later than we normally would sit, but I imagine it will be the focal point of most of our thoughts at that time. In any event, we could arrange to have a television set brought in here, watch the presentation and possibly have some officials here. I have not checked this out, but we could possibly have some officials here from Treasury to observe the budget with us. Would that be useful? We will try to arrange that.

Is there any other business before Ms. Andrew arrives? If not, we will recess until 10:45 a.m.

The committee recessed at 10:40 a.m.

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Mr. Chairman: Members of the committee, you have in front of you a summary of prebudget submissions. Mr. Bond has summarized the submissions that your subcommittee has chosen for further oral presentation. In the case of the Canadian Federation of Independent Business, you see the recommendations briefly put on page 4. Ms. Andrew is looking at me. She does not have that. That is our secret information. Ms. Andrew and Mr. Botting, welcome to our committee.

Members of the committee, you also have exhibit 48, which was distributed on February 5. Copies of that are in front of you again. Ms. Andrew is going to lead us through the first part of that proposal and then we will have some time for questions.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Ms. Andrew: I am Judith Andrew, director of provincial affairs, Ontario, for the Canadian Federation of Independent Business. To my right is Dale Botting, our executive director of provincial affairs.

If it pleases the committee, I would like to read into the record at least the first section of our submission. I will not read the portion dealing with the Radwanski service sector study but I would be happy to answer questions on that if anyone cares to pose them.

Mr. Chairman: That is satisfactory.

Ms. Andrew: This is a propitious time to be budget-making in Ontario, given the recent favourable growth and job creation performance and the happy prospect of continued, albeit slightly slower growth for the remainder of the decade.

As the representative of some 76,000 independent Canadian-owned firms across Canada, over 36,000 of which do business in Ontario, we are gratified that the government has highlighted the job creation record of small- and medium-sized enterprises in the new publication, the State of Small Business. Statistics presented in that document reveal that small firms with fewer than 100 employees were responsible for 96 per cent--82 per cent in Ontario--of net job creation over the 1978-84 period.

The Ministry of Treasury and Economics' recent study of the service sector, conducted by George Radwanski, completes the picture in terms of the key role of small business in many of the service categories examined. Given

that an estimated 80 per cent of all new jobs over the next decade are expected to derive from the service sector, one can conclude, as we did in our February 1986 prebudget submission, that developed economies are in a state of transition, with employment growth over the long term focused on information-services, rather than manufacturing-resources.

Indeed, the Radwanski study reveals that the service sector, broadly defined, already accounts for 73 per cent of employment and 70 per cent of gross domestic product. It admits, "We still tend to think of ourselves as living in an industrial economy organized--in terms of its development policies and its priorities--primarily around the manufacturing sector."

CFIB would like to take this opportunity to comment on certain conclusions and recommendations contained in the Radwanski study of the Ontario service sector. However, first we would like to deal with key omissions of that study: taxation and the impact of regulation.

Taxation and small business: Taxation inhibits private accumulation of capital for investment in small firms and stymies firms' internal generation of equity. Excessive taxation draws down the meagre pool of capital available to finance small business. Recourse to outside equity and debt capital financing is usually limited because of the relatively high costs of screening and servicing small investments and loans. Thus, current and proposed mechanisms and levels of taxation are of prime importance to the small business population.

Indeed, total tax burden remains as the most important problem affecting business on our member census. In over 8,500 personal interviews with Ontario independents to January 1987, 59 per cent reported that total tax burden is a significant problem for their business. For startup firms under one year of age the proportion is higher at 63 per cent.

The total tax burden includes personal and corporate income tax, municipal property and business tax, indirect taxes, and of course, the increasingly significant payroll tax component.

CFIB's 1983 study of payroll and indirect taxes, Impact of Certain Taxes on Smaller Business and Jobs, shows clearly that due to the greater labour intensity in small firms, and owing partially to the various caps on per person assessments, the impact of payroll taxes falls more heavily on the small business sector. I have brought with me a few copies of that study and I would be happy to provide the committee with additional copies.

Small businesses pay a higher portion of other nonincome taxes, primarily property and municipal business taxes. In 1980, small firms with less than $5 million in sales paid 38 per cent of all indirect and payroll taxes in Canada, while earning only 21 per cent of the profits. By contrast, firms with more than $25 million in sales paid 47 per cent of the taxes but earned 64 per cent of the profits.

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Smaller firm difficulties with the Workers' Compensation Board payroll taxes have escalated since our February 1986 prebudget meeting. The average 8.7 per cent assessment rate increase for 1987 announced by the Workers' Compensation Board, combined with the assessment ceiling rise, will produce an average increase of almost 16 per cent. This is compounded on the 15 per cent for 1986, 32 per cent for 1985 and 31 per cent for 1984. Despite these mammoth

annual increases, the board's unfunded liability continues to grow, standing at $5.4 billion in 1985.

Board officials would have everyone believe that the problem is in hand because of the plan to amortize the unfunded liability over 30 years. However, the terms of reference of the WCB's internal cost study, in admitting puzzlement over the upward trend in lost-time claims, claims duration, permanent partial disability awards and pension supplements, reveals just how tentative are the assurances that the fiscal regime is in control.

While we are happy to see the WCB management team keen on analysing the various elements of the cost structure, we do not believe that meaningful change will occur until a royal commission review points the direction for a fair and sustainable system.

Moreover, developments at the Workers' Compensation Appeals Tribunal since its inception in autumn 1985 have called into question the board's continuing responsibility to set policy under the Workers' Compensation Act. The consideration by WCAT of the entire scheme for determining permanent partial disability pensions, the tribunal's recent decisions on pain and its recent dilution of the requirement to find a causal link between the injury and the work place, if left unchallenged, will mean that the power to set policy will be vested in the appeals tribunal.

For these reasons, we urgently request an assessment premium freeze pending the outcome of a royal commission inquiry on the Workers' Compensation Board. Appended to this submission are terms of reference that we submitted to Premier Peterson in July 1986, responding to his request. We are still awaiting the Premier's reply.

Ontario's deficit financing: Deficit financing in Ontario, currently $1.4 billion, is particularly reprehensible when the economy is so buoyant. Four years of growth following the 1981-82 recession ought to have allowed more stringent cost-cutting measures than we have observed. Years of deficit spending have produced government own-purpose debt of $35 billion and consolidated debt of $54 billion. It is an extraordinary waste that annual debt-servicing now absorbs $3.5 billion, amounting to 12.4 per cent of Ontario's budgetary revenue.

CFIB members recorded their dissatisfaction with provincial restraint during personal interviews in the autumn. Some 67 per cent of Ontario independents, as compared to 60 per cent for the Canadian membership, said they were dissatisfied with progress made to date by their provincial government in reducing expenditures. Rating the federal government in our previous survey, 71 per cent of Ontario firms and 70 per cent of the national membership were dissatisfied. It appears that Ontario firms are more critical of the provincial restraint effort than many of their provincial counterparts, whereas they join equally with their counterparts in registering dissatisfaction with the federal government.

CFIB's Mandate policy direction for 1982 shows that 86 per cent of independents want substantial permanent cuts in government spending. Some 74 per cent would apply cuts on a selective basis rather than across the board. Moreover, there is a clear majority for cancelling some government assistance to business to help reduce the deficit. A subsequent section of this report discusses support programs for business.

Deficit spending concerns our members because it solidifies higher expectations among the recipients of government's largess and because it increases pressures for higher levels of already burdensome taxation to pay for the excesses.

The November 1986 announcement by Ontario of windfall tax revenue of $405 million, of which all but $107 million was recently spent, left us most disappointed. It came as no surprise that taxpayers' money was used to attract two additional auto installations, even when the auto industry itself is predicting serious overcapacity in the future.

I note here that the Ontario Finances report for the third quarter, ending December 1986, shows windfall revenue of over $900 million. Of that, almost 80 per cent was immediately applied to expenditures and only 20 per cent applied to deficit reduction.

Your government must acknowledge the serious deficit and debt problem by setting out a strict schedule for elimination of the annual deficit in Ontario and for repayment of the accumulated debt. Elimination of the deficit should be undertaken as soon as possible, before 1990 at the very latest. Deficit reduction must be accomplished by spending cuts, not through increased taxation.

I will omit the next section on the small business deduction. It addresses a document that was tabled with the last budget. I turn now to support programs for small and medium enterprises.

The CFIB cannot in good conscience request support for additional programs for business, given our firm stand on the importance of deficit reduction by expenditure control. Moreover, we have reason to believe administered government programs and small business do not mesh very well.

CFIB has received a listing of the various provincial assistance programs prepared by the Ontario legislative library. A brief description of each program totals some 30 pages. It would have to be a very patient small business owner, and one with sufficient time to sort through the different purposes, qualifications and types of assistance available, who would pursue government help.

A general question on government assistance posed to members in several provinces in our April 1986 provincial survey will be run in Ontario during February 1987. The question is appended to the submission. If Ontario's experience is similar to that of other provinces, then 20 per cent to 25 per cent will report having received financial assistance at some time in the business lifespan, possibly through the tax system. I can give you a little more detail about the responses to the remaining questions from other provinces. Of course, we will provide the Ontario responses when they are available.

With 20 to 25 per cent in other provinces having indicated receiving financial support, about half indicated that the business activity supported by the program would have gone ahead without the government funding. Moreover, of those indicating why they did not receive financing from government, one tenth indicated they were unaware the programs were available, two fifths indicated they were not eligible and one fifth each indicated they were opposed to government grants to business or that the paperwork and red tape were more trouble than the program was worth.

We have survey data from the early 1980s showing that only 46 per cent of respondents knew the name of the Ontario Development Corp., 23 per cent were aware of the type of assistance it offered and only three per cent had ever received any ODC financing.

Concerning advisory programs for business, our 1985 Mandate vote result was 69 per cent against subsidization of government advisory programs for business, although the Federal Business Development Bank format of counselling assistance for small enterprises did garner favour in an early vote. The weight of our other votes over several years has been against the various subsidy schemes for small business. We surmise that our members believe their competition will be unfairly subsidized or simply do not agree in principle. About 13 per cent of our members indicate that government grants to their competitors are a serious problem for their businesses.

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In our view, the most successful programs for small business are those which lower the tax burden and are available to everyone through the tax system--for example, the tax holiday for small business--or those which lever private sector capital and advice, for example, the small business development corporations and the new ventures program announced in the last budget. These are preferable to those which attempt to have officals pick winners directly.

We noted earlier in this brief that access to outside equity and debt capital is limited because of the inadequacies of the marketplace in economically screening and servicing small-scale investments and loans. The venture capital industry, for example, cannot economically provide valuable capital and management assistance to but a select few medium-sized growth companies that have the potential to be publicly listed corporations.

Because of this structural problem, governments do have a legitimate role in providing incentives for risk investment. Ontario's SBDC is an excellent example. Federally, the business investment loss provisions and exemptions from capital gains taxes are fundamental to the financing of smaller-scale enterprise Canada-wide.

We recognize the great temptation for governments to be seen announcing administered programs directed towards some attractive purpose, for example, high technology. Industry ministry speeches seek regularly to leave the impression that, were it not for the support of government, all of business would falter. Yet the Treasury ministry's service sector study showed clearly that services have been burgeoning, not only without the help of government but also without, until recently, government's awareness of the phenomenon. As a consequence, the majority of programs currently in place are directed solely at manufacturing activities.

Our recommendation is that support for small business should be meted fairly through the tax system or through programs which lever private sector financing and advice rather than by administered grants and loans. Governments should avoid setting criteria which exclude certain sectors or types of activity.

Concerning regulation, as defined by the Neilsen task force, regulation is the imposition of rules by the state, backed by the threat of sanctions, with the objective of modifying or controlling private behaviour.

According to recent results of CFIB's census of the membership,

"government regulation, red tape and paper burden" is the second most important problem facing business, with over 50 per cent noting its significance. In 1984, over 70 per cent of our members reported spending one to five hours per week on government paperwork. Another 20 per cent spent six to 10 hours, while slightly less than five per cent each dedicated 11 to 15 hours and more than 15. About two fifths of Ontario respondents named the provincial government as the level imposing the greatest burden to their businesses in terms of time and money.

Analysis of the volume of statutes contained in The State of Small Business highlights the growth from less than 1,000 in 1979 to more than 4,000 in 1983. Clearly, attention to this issue is long overdue.

Elements of an effective regulatory reform strategy include mandatory impact assessment of new regulations, publication of regulatory agendas, opportunity for comment and sunset provisions. A code of regulatory fairness would be useful to set the tone.

We are convinced that the savings to both government and business would be large, and we would be happy to consult further as to the structures and mechanisms necessary to make reform meaningful.

Mr. Chairman: Thank you very much. There is some interesting philosophy there. Not seeing any hands up yet, I will ask the first question myself. Suddenly, I see two hands.

It has been suggested that the first two budgets of this government pay for all current expenditures and the deficit merely goes to pay for capital costs which, of course, will benefit future generations. The argument is why should future generations not pay for things they will be using? You do not agree with that, I take it.

Ms. Andrew: We are looking at cash requirements, and it is borrowing. I would expect that a good portion of the $50 billion accumulated is not for future generations but has been spent in the past. We are concerned about the fact that accumulated debt absorbs more than 12 per cent of the budgetary revenues. In less buoyant times than this, it makes the Treasurer's choices very difficult, because he is constrained by a big chunk of the budgetary revenue that immediately has to go to the servicing of the accumulated debt.

The kind of philosophy you are espousing is interesting, and it has a certain appeal, but I think we are concerned more about what is accumulated to date and how we can get that under control.

Mr. Chairman: So your concern then has to do with the debt that already exists and attempting to reduce that.

Ms. Andrew: And, of course, it is the current deficit that we are concerned about, and the fact that that deficit continues to add to the debt, and the debt now absorbs 12 per cent of budgetary revenues. In the future, it seems that debt will continue to grow and continue to absorb a larger and larger portion of revenues making the Treasurer's choices even more difficult each year.

Mr. Chairman: I have questions from Mr. McFadden, Mr. Epp, and Mr. Ashe.

Mr. Ashe: I think that should correct the record.

Mr. Chairman: And Mr. Haggerty.

Mr. McFadden: I just want to compliment you on your brief. It is very specific and covers the points fairly well. Sometimes we get briefs in here about which it is hard to figure out what they are really getting at; but I think this has set out your concerns very specifically.

One of the matters that you raised was the total tax burden on small business. The figures that you cited in here are all indirect and payroll taxes. What about direct taxes and so on?

Ms. Andrews: I did skip that portion.

Mr. McFadden: My question here is: if you take direct, indirect and payroll taxes and compare small business with larger business enterprise, do you get a similar result to what you have set out in connection with payroll and indirect taxes?

Ms. Andrew: Yes, you do. In fact, I direct you to page 5 where we have calculated the effective tax rate on small businesses for a number of years, divided into asset size categories there. The most recent year shows an effective rate for small business of about 17 per cent. In previous years it was higher. In 1982 it was about 23 per cent, in 1981 it was about 25 per cent and in 1980 it was about 23 or 24 per cent. That compares to the rate for large business in each of those years of 25, 29, 26 and 26.

It appears from the analysis of effective tax rates that the medium-sized corporations are paying even more than the large firms. This arises because of the capital cost allowance and depletion allowance provisions. But, generally the picture is that small and large pay relatively the same on direct taxation. Combined with the greater burden of payroll and indirect taxes on small business, they are indeed in an overall way absorbing more than their share of the tax burden.

Mr. McFadden: I take it your argument is that when you add that to all the paperwork, government has built in a disincentive for small business. In spite of all the programs out there, the breaks here and breaks there, the advisory groups and all these people travelling around from government, what you are suggesting is that the total picture is a disincentive to small business.

Ms. Andrew: I think it is. They have done amazingly well in their job creation record given the different obligations government has imposed on them, and the paperwork is a big one. I would fully expect that paperwork figures more largely in terms of their problems than could be mollified by any program that government could offer.

Mr. McFadden: You have talked about this plethora of regulations. I take it what you are suggesting there is you want this all to be rationalized in some way, shape or form. Your final recommendation talks about some sort of a regulatory reform package and a code of regulatory fairness. Have you got any recommendation of how you see us implementing that? Are you suggesting this be done, and by whom? How would you see us launching ourselves on that?

Ms. Andrew: There are different ways to do it. Perhaps I should ask Dale Botting to speak to this. He is our expert in this area.

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Mr. Botting: Regulatory reform has been attempted by various jurisdictions. Right now, I think the leader is the federal government in terms of its initiatives under the minister responsible, Barbara McDougall. The vehicle they chose to create was a separate minister with responsibility for a secretariat or an office of people that would do the kinds of things we talked about in our brief.

Some jurisdictions felt it was important enough to put it right into the Premier's office. In the past, the Premier of Saskatchewan, to take a provincial example, has viewed that as being a key part of the overall mandate of his government.

The important thing for us is that there has to be political will. It has to be firmly communicated across the bureaucracy so that whomever is responsible, or whatever the agency, is given clear authority to regulate the regulators. That really is our concern. Whether the vehicle be in the Premier's office or through the chairman of a powerful cabinet committee is inconsequential to us as long as the political will is clearly reinforced across the board. But we do think it is a fundamental right of citizens to have this bill of rights, if you will, on how to be protected against the regulator, so that they are not subject to arbitrary decision-making powers and abusive authority.

For example, often our membership is not so much concerned about the overall pile or burden of regulation, although clearly that is a problem; it is the hasty changes in which regulations are made and the lack of clarity in terms of the wording of regulatory requirements that are of concern. Often it is not the restriction but the paper burden itself that is of concern, all the various forms, the fact that they are poorly co-ordinated and consolidated, the lack of common data bases for the bureaucrats to use rather than asking the employee or employer in small business to do the work for them, as our members have phrased it.

Those are the kinds of fundamental issues. Again, it is not so much a question of the who as long as it comes from the top and is clearly communicated across the board. It is the same as we have said about a small business minister. Many people have asked us, "Who should be the minister for small business?" We have said, "Everybody in cabinet should be the minister for small business because the issues are horizontal as they affect our membership and regulation is of a similar nature."

Mr. McFadden: I have one final thing on the nature of small business. I am trying to recollect the figure. Of the new jobs created by small business, I believe your figure is that about 82 per cent are created by small business enterprise. We know that something approaching over 80 per cent of all jobs probably are in the service sector. Would the percentage of jobs created by small business be more in the service sector than in manufacturing? What percentage of the jobs created by small business would be service sector jobs? Do you have a figure on that or would it just be the average, about 80 per cent, or do you think it would be a lot higher?

Ms. Andrew: I can provide you some data on the sectoral breakdown of job creation. I think a large proportion would be in the service sector, but our own job creation study showed that the small manufacturing firms were indeed creating jobs. It is more a function of size. The small ones are finding specialized niches and growing. But in an overall way, the largest

chunk of the new jobs is in the service sector.

To add to Mr. Botting's comments on the difficulty of small business with regulation, I do not know whether you can all see this, but this is the profile of Ontario business. Sixty-eight percent of small businesses have between zero and four employees. They simply do not have all the specialists available to answer all the forms, fill in all the documents and deal with all the government departments they are required to deal with. That is why the cost to small business of complying with government regulation is disproportionately heavy. It is simply a function of their size. Most of Ontario business is small. Only 1.5 per cent have more than 100 employees.

Mr. Epp: I have two or three questions. On page 4, you speak about Ontario deficit financing. You indicate that the percentage of dissatisfied Ontario independents is high as opposed to the national average, 67 per cent to 60 per cent. Is there any particular area in the country where that dips significantly, like in Alberta?

Ms. Andrew: We have some breakdowns of that survey here. These are our members' opinions in personal interviews. Do we have it here?

Mr. Botting: I do not have the specific interprovincial table. I can get it for you later. Going by memory, the concern about the lack of spending restraints, which is really the question asked in each of the provinces, was high also in the western provinces. In Alberta, it was about 70 per cent; in Saskatchewan, it was about 45 per cent; in British Columbia, even with the fairly extensive spending restraint packages introduced in the past few years, it was still around 60 per cent or 70 per cent. In Quebec, it was about 50 per cent. It was lower in Quebec as a percentage of concern. In the Atlantic Canada region, it was again in the 80 per cent to 85 per cent range.

Mr. Epp: That is strange, because of the fact that in Quebec the cumulative deficit is greater and the current deficit is greater, around $30 billion to $35 billion.

Mr. Botting: Yes.

Mr. Epp: That may be high for Quebec. I am not quite sure what it is, but it is higher anyway. Yet their concern is less than the concern in Ontario. They are also in a less able position to deal with it than we are.

Ms. Andrew: In some of our surveys, the Quebec results do differ and for no obvious reason. It is a perception survey, and there may be cultural differences that allow them to look at these matters slightly differently. I cannot explain it.

Mr. Botting: I qualify again by giving you those numbers by memory, but I believe it is a lesser level of concern. The other thing I should indicate is that the small business community in Quebec is somewhat different in composition than the community we have surveyed in Ontario. We tend to have a higher level of proprietorships and younger businesses within our Quebec business community than the firms in the Ontario sample.

With the western data, I can see why their level of concern is not as high as Ontario. Ms. Andrew mentioned that about 12 per cent of your expenditures are in debt servicing. The closest you have west of Ontario to that level is Manitoba at eight per cent. After that they drop off quite dramatically to the range of four per cent or five per cent of total

expenditures being debt service cost in the other western provinces. It is this department of debt and the chunk of the pie spent more and more every year, leaping from seven per cent in Ontario in 1975-76, for example, to over 12 per cent now--seeing that wedge get bigger and bigger is creating some concern for our membership.

Mr. Epp: Yes, we did not have deficit financing, certainly on a regular basis, until 1971. We may have had some during the war years and so forth, but not until 1971 did we have it on a regular basis. As Mr. Taylor says, all provinces have it now. In trying to strike a balanced budget--and I do not disagree with you on that--what would you do? Would you raise taxes or would you reduce expenditures?

Ms. Andrew: We indicated quite clearly that we would not raise taxes. The tax burden is already a significant problem. Our members have called for expenditure reduction, not in an across-the-board fashion, but in a selective way.

Mr. Epp: Where would you select that?

Ms. Andrew: I am not in a position to point out programs and areas to cut, but there ought to be a review. There could be all sorts of things that could be cut. I do not think anyone would disagree with that. Our members want the important programs maintained in terms of their concern in education and so on, but they feel that there are some excesses and that a significant spending restraint could be implemented.

Mr. Botting: I will supplement Ms. Andrew by noting that, beyond program expenditure reduction, our members have frequently and continually said they are concerned about competition with government in terms of tracking employees, and the high wage and benefit packages in government are a significant challenge for the small business community to compete with.

The whole area of government is very labour intensive, both directly and through its third-party grants to hospitals, school boards, municipalities and so on. In looking at various wage comparative studies done by the Conference Board of Canada and others, we know there is quite a significant gap between what private sector employees are being paid and what those in equivalent jobs are making in the public sector in many areas. Therefore, a major area for restraint beyond program reduction is in the whole area of management of government wages, salaries and benefits.

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Mr. Epp: Would that include MPPs?

Mr. Botting: We have not surveyed our people specifically on that.

Ms. Andrew: There is no private sector equivalent for that.

Mr. Partington: That is actually a good answer.

Mr. Epp: I have one last thing, and that has to do with the percentage of industries under the heading of "Support Programs for Small and Medium Enterprises." I am not sure whether you indicated what percentage of industries would go ahead with their programs irrespective of receiving government assistance.

Ms. Andrew: We are guessing what the result will be in Ontario. This survey that is appended, as I might say, to the brief, will be in our members' hands this month. But we have posed these same questons in other provinces, and the result there was that approximately half indicated the business activity supported would have gone ahead notwithstanding the financial support.

Mr. Epp: In trying to be realistic from this end, I have people who come to me and say: "Look, I would like to get this government support. It is there, and I want to get it." They do not say, "Look, I am going to go ahead anyway." They try to give the impression every time, and I know every member here can identify with this, "If I do not get the government support, I am not going to go ahead."

Mr. Taylor: That is the game.

Mr. Epp: Yes, it is a game, in a form. They indicate that to us, and I am sure they indicate that to the bureaucrats, but when they do the survey, they are a little more objective and say, "I would have gone ahead anyway."

Ms. Andrew: It is part of the competitive reality out there. If they realize those programs are available and their competitors are equally likely to go for them, then they too feel that in order to remain competitive they have to try to get whatever their competitors will get. If it were not available, 50 per cent say they would go ahead anyway.

Mr. Epp: Is that with regard to most of the programs?

Ms. Andrew: This was on financial support, and I do have to qualify our remarks, because these data were not from Ontario.

Mr. Epp: Those are important data. What you are saying is that of the 100 per cent of people who apply, what we have really to bank on is that 50 per cent would have done that anyway, irrespective of the support they got from government.

Ms. Andrew: I will undertake to provide this committee with the results of this survey the moment they are available.

Mr. Epp: Okay.

Mr. Botting: One of the areas we talked about in our brief that may be an exception to this is new venture formation, where equity is very important; in fact, it is instrumental in getting the business launched.

The small business development corporation program in Ontario and, for that matter, many of the provisions of the new ventures program, we think, are exceptional and show different results in many respects from our normal member response on programming. They view that quite differently.

Mr. Ashe: The chairman is not here at the moment but--

The Acting Chairman (Mr. Haggerty): He is coming right in.

Mr. Ashe: Good. The first thing I want to do is correct the record for those who may read it later. The chairman indicated something like, "The government's first two budgets were designed to have an operating balance," if you will, "and only finance long-term capital investments."

I beg to differ with that statement. I think the record will show that, definitely in the last budget, several hundred millions of dollars of deficit were budgeted for current purposes. I cannot recall the first one, but I think the chairman will find it was the same with that one.

Because of the great inflow of additional revenue, if they do not blow their estimate between now and the end of the fiscal year, it may end up--

Interjection.

Mr. Ashe: Right, but it was not budgeted that way. That is for sure.

Interjection.

Mr. Ashe: I said I am not sure about the first budget, but this last one, definitely. Suncor was the one before, if you will recall.

Mr. Chairman: I am not in a position, as chairman, to argue with you, Mr. Ashe, although I--

Mr. Ashe: I am afraid this is one where I know I am right.

Mr. Chairman: I am merely indicating that I put that forth as an argument that is made, rather than my own view.

Mr. Haggerty: Let the record show that Mr. Ashe is right this morning.

Mr. Ashe: On that one anyway; not on everything.

Mr. Taylor: Let the record show that the chairman did not necessarily adopt that argument.

Mr. Ashe: I am sure the chairman will check the record.

In any event, that was obviously not my question. Where I have a bit of a question, if you will, is how does the feedback come? It is your very first recommendation, so I presume it is felt to be one of the highest priority to do with the assessment freeze on the Workers' Compensation Board premium. Maybe you can show me how it relates to your September 1986 survey of the most important problem.

I appreciate that it is probably under that total tax burden heading, but really none of them thought high enough of WCB in its broadest sense as being one of the top 10 problems, at least the way you identify them. Having said that, I know there is concern out there. At my constituency office I am getting to the point, if the same trend continues, that I am going to have as many complaints from employers vis-à-vis WCB as I have from employees. That is a new phenomenon that has just started to grow in the past two years.

Mr. Chairman: Maybe that is because we have many fewer complaints from employees now under the new regime.

Mr. Ashe: Not in the least. I practically have a full-time staff person working on WCB. Even those I get from employers do not directly relate to the cost; in their view, it is more the unfairness, which I know ultimately affects costs in terms of future assessments. Can you tie all that in with your various recommendations and why it does not show in your survey?

Ms. Andrew: I guess it was not clear. We have two surveys. We have what we call our national survey, or our members' opinions. That is done on a census basis in personal interviews. The category of total tax burden is available on that survey, but there is not a category for WCB.

We address the WCB on separate provincial surveys to do with provincial issues, and it quite clearly emerges as the number one problem on provincial surveys. The most recent one showed that well over 40 per cent of our members say that WCB is a significant problem for their business. That is, by far, the highest of the responses we got.

The way it ties to total tax burden is not only the direct and indirect taxes, but the payroll taxes. With increases ranging from 16 per cent to over 30 per cent in each of the past four years--this is compounding--our members who have not had any problem, accident or otherwise, fail to understand why they are being penalized in this way. It is quite clearly getting to the breaking point for small business. They are simply paying an enormous amount in payroll tax. They support the tenets of the WCB system, they want to see a fair system, but they want to see one that is sustainable for the future.

In our view, drawing on the survey results, it seems that the WCB is a system out of control. When you have increases of that magnitude and the unfunded liability continues to grow, you must certainly wonder how long that can continue.

Mr. Ashe: Just to finish that off, and I am cognizant of the time--

Mr. Chairman: We have four minutes and two other questioners. Go ahead.

Mr. Ashe: On that one, maybe you can leave it for another time or, if you have something, maybe you can provide it to the committee.

On the WCB issue, has your group actually surveyed people to identify more specifically their concerns other than the amount they are paying? Do they have any recommendations that might be helpful in that regard? I will leave that one with you, because it does not directly relate, but I think it is important to the concern of small business. Even in my constituency office, it is growing. It is not that employees' concerns have gone down, but that employers' concerns have gone up.

Ms. Andrew: We have done those surveys and we have a couple of documents we can provide.

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Mr. Chairman: Very quickly, from Mr. Haggerty and then Mr. Partington.

Mr. Haggerty: I am looking at page 2, "Taxation and Small Business," where you say, "Taxation inhibits private accumulation of capital for investment in small firms, and stymies firms' internal generation of equity. Excessive taxation draws down the meagre pool of capital available to finance small business."

Could I draw a scenario from that? You are talking about the heavy taxation that may affect the small business sector of the economy. If you look at it from the other side, if you take the average wage earner who is paying

sales tax, municipal property tax, school taxes, a tax on hospitalization and a hidden tax on workers' compensation, it is a pass-through to the consumer. In looking at that and at what you have said about tax breaks for small businesses, you did not want to cover that area, but, just quoting from memory, $203 million was given as a tax break to small business. In summary, your suggestion is that we need a whole new tax review in Ontario.

You have hit at the Ontario Development Corp., and I understand. I have had difficulties with that in the past. Some persons borrowing through the ODC may borrow $300,000, $400,000 or $1 million and pay no interest at all, and the next one will pay 12.5 per cent interest. Are you suggesting there should be a tax review of all these areas? If it is hitting your line of small business, surely it is hitting the wage earner through a heavy tax burden of personal income tax, federal income tax, etc. The end product is if you put a damper on consumer spending, then business will feel the pinch, too, will it not? You just curtail consumer spending.

You have suggested areas there--even the word "subsidy" came into the picture. Are you suggesting that the government should be moving to look at all the subsidy programs that are available now, not only to small business, but also to any other business, including the farming community? Are you suggesting an in-depth study of that is required now?

Ms. Andrew: I think we are in for a tax review in terms of what is likely to happen in the spring with the federal tax proposals. I should correct the impression we have left that there is a tax break for small business of $210 million. That is largely illusory because when you look at effective tax rates after the capital cost allowances and so on, small business is not getting a big break from that.

Our argument is, taking the combined picture of the effect of tax rates on small business and the payroll and indirect taxes which bear more heavily, small business is not reaping a wonderful benefit from having that small business deduction. In fact, it goes some way but not all the way towards equalizing the burden between small and large business.

As to whether the tax burden is too heavy on consumers, that is a whole other area. We are not experts in that area; we are experts, I suppose, in small business. You are correct. If taxes on consumers are too onerous, indeed, that affects business. By the same token, if taxes on small business are very heavy and they cannot pass them on to consumers because they do not have market power or their competitors do not go along with it, then that is a problem, too.

I cannot comment any further on taxes on consumers. It seems as if this spring we will have a full-scale review of our taxation through the federal government's initiatives, and that is an important review. The votes we have so far show that our members favour reduction of special incentives and bringing down the tax rates generally. That is the type of direction they appear to be sending us in.

Mr. Chairman: Very quickly, Mr. Partington.

Mr. Partington: Yes. You note at the top of page 8 that the service sector has grown without the government help and most government assistance goes to manufacturing activities. Do you disagree with that focus on manufacturing? Do you think there should be some proportionate amount given to the whole private business sector, including the service sector?

Ms. Andrew: We think that the design of programs should not specifically exclude certain categories of business, because we simply do not know in advance how well one particular sector or what kind of support it may need. In the last two budgets, the Treasurer (Mr. Nixon) has moved to expand the small business development corporation program to certain categories of the service sector. We think that is a reasonable thing to do because we should not be precluding the development of viable businesses simply because they are in one or another activity.

Mr. Botting: Our concern is means more than ends. We certainly are not going to condone anybody putting a wedge between the service sector and the manufacturing sector. We need a goods-producing sector in this economy and manufacturing is a key part of it. The problem is one of targeting and picking winners versus losers. As to the whole instrumentation we have had in government policy for supporting manufacturing, we wonder whether it works, particularly when the paperwork, the time requirements and the amount of money are conducive only to very large-scale enterprises that can apply for these grants in the first place.

For example, in the entrepreneurial high-tech manufacturing centre, sometimes the product lifetime of the product you are trying to produce and get a government grant for may be of shorter duration in the marketplace than the time taken to get the grant itself. That does not make sense.

Other jurisdictions, recognizing the importance of small-scale manufacturing, have done far different techniques such as modify the tax environment. Many western provinces, for example, attempting to diversify their resource-based economies, have developed a small business manufacturing tax rate exemption for firms with net income less than the $200,000 net income criterion with the small business rate. That is far more universal. It is far simpler and it recognizes the importance of that goods-producing sector.

Mr. Chairman: Ms. Andrew and Mr. Botting, thank you for elucidating your views with us. Obviously, your views are front and centre and very important to any government today and I am sure they will be given consideration.

Next we have the Ontario Road Builders' Association. Its brief, exhibit 41, was filed on February 5, and is précised on page 17 by Mr. Bond. We have with us today the president of the association, Mr. Lawrence as well as the executive director, Arthur Ryan, and the first vice-president, Harold Hunt. Harold Seegmiller, the immediate past president is here. Take a few minutes, gentlemen, and arrange yourselves around the table. I apologize for the lack of space there. This committee room is a little smaller than most in that regard.

Gentlemen, we have your brief with us. Members of the committee have it in front of them. They also have a summary of your recommendations prepared by our researcher. It will probably assist us, though, if you are prepared to lead us through it to some degree or if you have some other comments you wish to make in supplement to your brief, that is fine.

ONTARIO ROAD BUILDERS' ASSOCIATION

Mr. Lawrence: I will touch on the highlights of that brief and perhaps questions will come as a result of that.

The Ontario Road Builders' Association appreciates the opportunity to

appear before the standing committee on finance and economic affairs. Our association represents more than 160 companies in over 50 communities across Ontario. Our members employ more than 10,000 people and are responsible for the construction of more than 80 per cent of the roads in Ontario. That road infrastructure represents an investment of more than $23 billion.

Our purpose today is to remind the members of the committee of the important role that highways and roads play in the development and expansion of the provincial economy and to encourage enhanced expenditure on the maintenance, rehabilitation and expansion of the highway and road system.

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While formally a source of pride for all Ontarians, the quality of our extensive road infrastructure now is in serious jeopardy. Without a continuing commitment to excellence in this field, Ontario will soon lose the benefits of a well-maintained, efficient road system. Indeed, Ontario is on the brink of losing those benefits now.

Studies by TRIP, The Road Information Program of Canada, show that the condition of Ontario highways, municipal roads and bridges is rapidly deteriorating. Expenditures on the roads have just not kept up with the needs. The road budgets are falling behind in relative terms compared to other provincial expenditures; they are falling behind in terms of what is required to keep a road network up to scratch.

Funding for capital and construction on provincial highways decreased by 13 per cent between 1979 and 1985, which represents a staggering decrease of 48 per cent, allowing for inflation. Repair and reconstruction are simply not keeping up with wear and tear. If something is not done soon, Ontario will have a second-rate road system, which is in no one's interest because roads are really the lifeblood of the provincial economy.

Roads and highways have always played an important role in economic and regional development, especially in northern and eastern Ontario where longer distances must be travelled. Retailers, manufacturers, agriculture and countless commercial enterprises in cities and towns across Ontario must have access to direct, uncongested and well-maintained roads.

Please consider that roads carry more goods than all other modes of transportation put together. Approximately 100 million tonnes of freight are shipped across Ontario roads each year. More than $12 billion worth of goods arrive by road annually in Metro Toronto alone. Goods exported from this province via truck are evaluated at over $36 billion a year. Eighty per cent of tourists travel by road in Ontario.

Bad roads hurt industry. They also hurt tourism. In addition to these compelling economic facts, Ontarians also rely on the road and highway system for the delivery of many essential services. Municipal transit, intercity bus services, school buses, police, fire protection and ambulance and other emergency vehicles are but a few of the social services that require an efficient road network. Bad roads cost everyone money. Studies show that the average motorist in Ontario pays about $100 a year in extra fuel and repair costs because of driving on substandard roads. We are paying for bad roads even if we are not doing it through public expenditures.

If we leave the burden on the motorist, the cost will just keep growing year by year and road conditions will keep getting worse. If we put the same

money into road improvements, or even a portion of it, we will stop the trend. Here is a case where public expenditures really do save money for the taxpayers. No prudent owner of a physical facility would permit deterioration to occur to the extent that major reconstruction is required, rather than orderly maintenance, at a huge increased cost to the shareholders and at great inconvenience to the users.

Resurfacing a kilometre of a two-lane highway costs $75,000 while reconstruction of that same kilometre costs $265,000. The public seems supportive of these increased expenditures. Recent public opinion polls clearly indicate that people across this province are concerned about the condition of the roads and highways in their communities. Spending on roads today avoids massive and unnecessary public expenditures tomorrow. Spending on roads today means Ontario will have the first-class road system it requires.

We also remind you that the job creation impact of road expenditures is second only to housing. In addition, there are accompanying spinoffs in tax returns, indirect job creation and decreases in the cost of social safety nets. We urge you to use your influence and recommend to the Treasurer that more funds be allocated for roads and highways in his upcoming budget.

In our brief, we have suggested a number of proposals which, if adopted, could help pay for the required road improvements and expansions. We will be pleased to discuss these proposals or other questions you may have.

Mr. Haggerty: I was interested in the following statement: "Studies indicate that every one-cent-a-litre tax on gas and diesel fuel generates $120 million to $130 million per year. We suggest that the current decline in gasoline prices, which appears to be a long-term situation, presents an opportunity for government to capture additional revenue by increasing fuel taxes." I understand that the principle behind your brief this morning is if we increase the price and the taxes, we can take that amount of money--one per cent or two per cent or whatever it may be per litre--and earmark it for roads.

Under the present taxing formula of the Treasurer, I think 65 per cent of all the revenue generated from road taxes--vehicle licence, diesel fuel tax, gasoline tax and things of that nature--is earmarked, actually goes into consolidated revenue, and covers only the cost of maintaining and building new roads today. Thirty-five per cent of it, I understand, is picked up through consolidated revenue. That means that every little old lady out there who does not drive a vehicle is asked to pay and subsidize the road system. I do not know whether you are aware of that but it is what takes place today.

On the American side, the federal government has come through in the past with a program where it put 4 per cent or 5 per cent on the fuel tax that went to rebuilding roads and bridges and building new bridges. It was earmarked. It created a number of new jobs on the American side. That is what we are heading for in this document this morning. If you could have the government increase taxes on gasoline and petroleum fuels, then the money should be earmarked especially for that.

Have you looked at any other areas of taxation that are using the roads today but are not paying their road tax share? Have you looked at that area of taxation of fuels?

Mr. Lawrence: Over the years, Mr. Haggerty, we have watched the continuing decline in the amount of money being made available for the capital

program of the highways in Ontario. As our brief said, in the last five years, I think it is, there has been a 48 per cent decrease in there. Obviously, the roads are losing out when it comes to the allocation of moneys from general revenues.

We realize the importance of the public with regard to health care costs and education. Those costs seem to continue to climb and we feel that we will probably continue to lose getting any share of that if that trend continues. I think the government has an opportunity to look at a vehicle of providing more badly needed funds to an infrastructure system that is in trouble. I do not care where it comes from.

Mr. Haggerty: Has your group looked at other tax areas; for example, persons who are using the road systems but are perhaps not paying their fair share of the use of the roads? I am thinking about natural gas vehicles and propane. I understand there may be about $25 million that is not coming into the revenues. Have you considered looking at that and saying, "They should be paying their way"?

Mr. Lawrence: If they are a user of the system, I think they would be expected to be embraced by this.

Mr. Haggerty: What you are asking here is that you want other users of the highways to pick up the additional cost to maintain the road network. With deregulation coming about, you are going to have more American trucks use our highways that perhaps will be paying very little in fuel tax here because the fuel tax is much cheaper on the other side.

Mr. Lawrence: Yes, it is. I do not think this has crossed us as an association before, but I do not see why those fuels should be exempt from any type of dedicated fund-raising for the highway system.

Mr. Taylor: Do those trucks fuel here?

Mr. Seegmiller: They certainly make it a point not to.

Mr. Taylor: This is a tremendous thing for the government. Here you have a regime that has seen its road system decay over the last 10 years and now you have a new regime and you could have a renaissance of roads in your next platform for the election. You should grab this and run with it.

Mr. Haggerty: All those signs all over the roads with every member's name on it. It would be great, would it not?

Mr. Ramsay: Maybe we should talk about toll roads.

Mr. Taylor: You would privatize.

Mr. Chairman; Politicking, Mr. Taylor--

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Mr. Ashe: I am curious about your recommendation as it relates to the suggested increase of another penny a litre. You do not really go into the fact, although you allude to it, which recognizes that many people believe the current gasoline tax of 8.3 cents a litre is already too high. Do you realize that on a policy basis--and I will not even speak for or against it--the taxation level now with the current prices during the last while is higher than under the previous taxing principle, which was ad valorem?

Mr. Lawrence: Yes, we do.

Mr. Ashe: In other words, when prices went down, the tax went down; when prices went up, the tax went up. It was frozen, if you will, at the highest level possible, so the Treasury is benefiting. But what you are saying, and I concur, is that the road system, the transportation budgets in the broadest sense, are not benefiting particularly in the past year when that extra money flowed.

Mr. Lawrence: We would not be against it if they were to take one cent of what they are now collecting of the 8.3 cents. If they were to say one cent of that, if you will--

Mr. Ashe: As a goodwill--

Mr. Lawrence: --additional is going to go to roads rather than increase it to 9.3 cents, if they are in a financial position to take one cent out of the 8.3 cents and say, "This is going to go to the infrastructure," then--

Mr. Ashe: But I presume you are talking about additional funds to the infrastructure and the capital budgets and so on.

Mr. Lawrence: We are looking for additional funding. What we are trying to do here today, and I hope we do it successfully, is point out that there is a need out there. There has been neglect out there that can no longer go on.

Mr. Ashe: There is no doubt that over the last decade particularly the hard services, not just the Ministry of Transportation and Communications, have not done well in the process, thanks to the demands of the soft services. I say that in a nonpolitical sense, because it is not just MTC; it is any of the hard-services ministries. The Ministry of Government Services is another example within this government.

Can you clarify something for me? Maybe my arithmetic is escaping me today other than when it relates to budgets. On page 12 in your brief it says, "A penny a litre generates $120 to $130 million a year." That is fine. The next paragraph says, "Gas tax generates $500,000 a day." They do not add up. They do not equate one to the other, unless I am misinterpreting and you are not talking about the same thing. The only difference is the diesel fuel, of course, which you have added in the first one, but it is not that significant a percentage of the total, I do not think, if I recall the numbers in the budget, because I do not have one in front of me.

Mr. Ramsay: One cent a litre generates that much.

Mr. Ashe: I realize that. Okay, so you multiply that by 8.3. If you put that analogy, that is roughly $1 billion.

Mr. Seegmiller: I think the total revenues from the last revenues we saw generated from gasoline, licences and registration fees exceeded the total funds allocated to total transportation budget by approximately-- Total funds were $1.6 billion, I believe, the total transportation budget, and there was a small excess from those areas of revenue that were generated.

Mr. Ashe: Has anybody figured out how to explain---

Mr. Seegmiller: Whether or not the $500,000 a day is correct--

Mr. Ryan: I think the $500,000 a day is the increased tax that has been generated since we went from the ad valorem tax to the 8.3 cents a litre.

Mr. Ashe: Okay. That is from our--

Mr. Chairman: Ladies and gentlemen, there is a problem. Could the people in the two end seats move forward towards the microphones?

Mr. Ashe: You got that one from our party's recent statements relative to the gouging of the $500,000 a day because of the--

Mr. Ryan: Correct.

Mr. Ashe: Okay, fine. I just wanted to put it in the right context.

Mr. Ramsay: The Tories will get kudos for that one.

Mr. Ashe: No, it is just that they did not give us credit for it in their brief, that is all.

Mr. Ryan: The point we are trying to stress is the fact that when we talk about the additional one cent a litre, this is our last resource. We are saying effectively that there is a problem. The roads are in such a condition that something has to be done. We have approached the present government. We have asked for funding, and they say, "The priorities is with so-called soft costs." If this is so, then we have to develop our own additional revenue stream. This is the way we look at it.

In terms of your party's position, where this extra $500,000 a day is involved, since you have gone from the ad valorem to the 8.3 cents a litre, we are certainly happy to save a portion of that. We feel there should be some portion of that allocated to the roadbuilders. That is specific revenue generated by the motorist. It is extra funds that have been accumulated over the past year because of the upturn in the economy. I believe that as roadbuilders, we should have a significant impact on at least a proportion of the allocation of those funds.

Mr. Ashe: Generally, surveys have shown that people would not be as averse to what they are paying now, which is an additional $500,000 a day, if they knew it was going back into the system, subsidizing public transit through some percentage, with the rest bringing the road system up to scratch.

Mr. Ryan: Exactly right. A Gallup poll was taken last year, which intimated specifically that the public is not happy with the conditions of the roads in Ontario, particularly in the north. Of the respondents in the north, 81 per cent said the roads were in fair to poor condition. It is not just the roadbuilders who are presenting this position. Every association, everybody involved in infrastructure, is making the same point.

The Federation of Canadian Municipalities is talking nationally about a $12-billion shortfall in funding over the next five years. The Association of Municipalities of Ontario is saying there is a shortfall in municipal funding. The Roads and Transportation Association of Canada is promoting additional funding for infrastructure. The Road Information Program (of Canada), which is an independent study sponsored by the Canadian Construction Association, comes out with the same deficiencies we are pointing out.

Our concern is that this emphasis on so-called soft costs is just ruining our $23-billion investment, and it is $23 billion we have invested in these highways.

Mr. Ashe: Would you then agree that in the third paragraph on page 12, the sentence should read, "The amount of excess revenue currently being generated by the gas tax," moving away from the ad valorem principle, "is approximately $500,000 a day"?

Mr. Ryan: Exactly right.

Mr. McFadden: I have travelled throughout Canada and the United States, driven around. Notwithstanding this, Ontario has always struck me as having a fine road system if you compare Ontario to a lot of other parts of North America and Canada. We have always been pretty proud of our system, and I concur with you very much that at least a part of the economic vitality of Ontario is a function of our roads and our infrastructure. I think that is fairly clear. You have made that point very strongly.

One thing strikes me, though, and I would just like to throw this out to you. In its submission last week, the C. D. Howe Institute strongly suggested that we get a balanced budget in Ontario. This morning we heard from the Canadian Federation of Independent Business recommending that we head towards a balanced budget. I noticed among the submissions we have received that other organizations which have provided briefs have suggested a balanced budget.

At the same time, the universities feel they have had 10 years of underfunding and want a massive increase. I notice that the Ontario Confederation of University Faculty Associations, which will be here this afternoon, wants a $500-million special capital fund for university buildings. As we all know, the health care system feels it is seriously underfunded, even though a third of the budget goes to health care. I know the public school teachers feel they are not receiving proper compensation and resources. I can go through the list.

You have made a strong argument why you are underfunded and have been for some time. We seem to be heading into quite a classic confrontation here between those who want to balance the budget for economic reasons and for the future of the province and the country, and the submission by many groups that feel more money is needed. Our problem in this committee is that we have to try to balance all of this out.

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I noticed you mentioned the soft and hard costs, which, of course, is another argument of where we put priority. First, in so far as your association is concerned, have you really looked at this whole question of budget deficit? Second, in so far as roads versus education or health care are concerned, how would you suggest we work out the priorities in terms of society and spending?

This is the problem we really face here: how we approach this. I am concerned. How do you see us, as Ontarians, approaching both the deficit and the spending on all the groups that are demanding it? Nobody has come here yet, and I do not expect to have anybody coming here over the next couple of weeks, asking for less money and demanding that we reduce what is spent on them. I am just curious to know how you would see our working our way through this. I think you can tell we are all sympathetic to your points. I am just

curious to get your reaction to this kind of competition for money in government.

Mr. Hunt: Have you considered that some of the soft services have a tremendous base to start with? I am not an expert at this, but if one looks at the annual increase in health services, for instance, it is probably more than the whole Ministry of Transportation and Communications budget in one year. Is this not where your problem lies? Is this not where you have to start examining it? Do the health services really warrant that kind of massive increase every year? I know I am talking against motherhood here, but do they really? Does one not really tackle the big expenditures rather than the relatively small ones?

By the way, the actual part of the Ministry of Transportation and Communications budget we are talking about for capital and construction is about $200 million a year. That is the only portion of the MTC budget that has declined over these last five or six years; it has actually declined. Is it not time to get those kinds of things in proportion?

I really cannot talk about deficits. I just heard a startling piece of news on the radio this morning about the Northwest Territories. They are in a deficit for the first time ever. Is it all that bad? I do not know.

Mr. Chairman: The last (inaudible) thought it was; Mr. McFadden is saying that. You are arguing that it is not.

Mr. Hunt: That it is not what?

Mr. Chairman: You are saying the proportion of funds to be spent on roads should be kept up regardless of increasing costs in health care, for instance.

Mr. Hunt: One has to get it in perspective. The health services are--I am not going to say they are too big a base--a massive base compared to what we are looking at in highways. To get it in perspective, when you have the infrastructure declining the way it is, surely the construction portion of that budget shall at least have an increase, not be decreased.

Mr. Morin-Strom: First of all, I have a comment on Mr. McFadden's remarks on the good road systems we have in Ontario in comparison with other jurisdictions. Those of us who live in northern Ontario would beg to differ with that situation. Our road conditions are nowhere near what we have in southern Ontario, but in my case, Sault Ste. Marie, we are a border community and we see at first hand the comparison of Ontario's road systems with Michigan's. I do not think Ontario has spent anywhere close to what Michigan has in terms of its road system.

Coming into a very small community, Sault Ste. Marie, Michigan, it has a four-lane highway, I-75, clear down to Detroit and Miami, servicing the upper peninsula of Michigan, which has a much smaller population, in fact, than northern Ontario.

Mr. McFadden: Do they have health care systems in Michigan?

Mr. Morin-Strom: I am talking about the comparison of roads, which is what you referred to. I agree; I am not going to trade our health care system. If it came to roads, I would trade our road system for the concrete construction right through the state and right up to the less populated area.

Perhaps as a result, for example, Algoma Steel, which transports a tremendous amount of material on the road system in servicing the auto market, is better able to service plants in southern Michigan than it is southern Ontario. Most of their auto shipments go to southern Michigan, rather than southern Ontario.

The Conservative government promised four-lane highway construction connecting Sault Ste. Marie and Sudbury back in the early 1970s. I am certainly aware of that promise. I have heard Sudbury members as well talk about a promise of connecting Highway 69 down to southern Ontario.

Of that promise, in our area, we have about a 10-mile stretch which starts not even at the city border but rather about 10 miles out of town. There has been ongoing negotiation with the Indian reserve in the area, which it has to cross, that has been going on for a good decade and apparently is close to completion. We hope we are going to see that connection to it, but there has been little commitment from the previous administration to improving the road system in northern Ontario, which is a real competitive disadvantage to business in our area.

Mr. Taylor: Is this in the accord?

Mr. Morin-Strom: No. I wish it was.

Mr. Ashe: I do not see anything in the accord about roads.

Mr. Morin-Strom: You have laid out some costs of road construction for a mile of surfaced highway, comparing resurfacing versus new construction. Are those costs typical of what they would be across the kind of territory which is, I think, a lot rougher in northern Ontario than typically in southern Ontario? Would those be representative figures, and in particular, what would the figures be for a four-lane highway compared to a two-lane highway?

Mr. Lawrence: Those figures were confirmed by the Ministry of Transportation and Communications, so I think they would represent an average for Ontario. They are for two-lane construction, so in four-lane, you would be virtually doubling those figures.

Mr. Morin-Strom: It would be a safe estimate to double them.

Mr. Lawrence: Yes.

Mr. Morin-Strom: You are not aware of whether the cost per mile is higher?

Mr. Lawrence: In the north?

Mr. Morin-Strom: Yes.

Mr. Seegmuller: In various parts of the north, they certainly are, yes. As an example, the piece from Sudbury to Sault Ste. Marie would probably be considerably higher than what you would find, say, in the Cochrane area or somewhere of that sort.

Mr. McFadden: Are you saying you need more than $500,000--

Mr. Lawrence: To reconstruct a four-lane? Yes.

Mr. Morin-Strom: What you classify as reconstruction would be the same as first construction?

Mr. Lawrence: That would be taking the asphalt or whatever paved structure is on the road virtually off and either adding some gravel to the gravel base or fine-grading the existing base and repaving.

Mr. Morin-Strom: What I am suggesting right now, in an area where you have a two-lane and you want to go to a four-lane, what is the--

Mr. Lawrence: The cost of--

Mr. Morin-Strom: That is more than just reconstruction.

Mr. Lawrence: I think construction would probably be close to double.

Mr. Seegmiller: Yes.

Mr. Lawrence: Double that again. Whatever is shown here for maintenance, new construction would be approximately double at least.

Mr. Morin-Strom: One of the figures that I think would be of benefit in terms of assessing what has happened, at least in recent history, would be if we had the figures on real dollar spending on road construction in the province, say over 15 years, and what the trends have been, perhaps as a percentage of the budget, but also year by year in terms of a constant dollar basis.

Mr. Ryan: We have those figures here.

Mr. Seegmiller: We have them for the provincial highway system.

Mr. Morin-Strom: You do not have them in your submission. I wonder if we might receive those.

Mr. Lawrence: The capital construction for provincial highways in 1979-80 fiscal year was $232 million, and in 1980-81 it was $254 million. The trend has gone down. Last year, in 1985-86, it was $202 million. It is a drop of 48 per cent in constant dollars.

Mr. Morin-Strom: That is the total spending on reconstruction plus--

Mr. Seegmiller: On the King's highway system. I think you have to keep that in mind.

Mr. Lawrence: In municipal subsidies, what ends up in roads there is a figure that is hard to pin down, because a lot of that funding is used to acquire equipment or other things by municipalities.

Mr. Morin-Strom: Do you have the figures over a longer term than that?

Mr. Seegmiller: We could get them.

Mr. Hunt: Yes, we have them there.

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Mr. Morin-Strom: Do you have the figures over a longer term than that?

Mr. Seegmiller: The point we keep coming back to is the fact that the dollars being spent are not keeping up with even the maintenance of the infrastructure. In fact, we have going on out there all kinds of new congestion, new registrations, on the road. We have never studied the congestion question, but that is the next study. The number that was thrown in, the $100 per vehicle per year on six million vehicles registered in this province, represents $600 million, and we are spending a third of that on an annual basis to maintain the highway system. We are also spending a goodly sum on the municipal system as well.

We are saying this will become a major political issue for all of you, for any party, in the near future if it is not addressed. It is not appropriate continually to underfund this ministry. I recognize the question being asked about health and education and the balancing of that act with the Highway Act and with all the other queries that you have regarding funding in the province. You have to keep it balanced, and we are suggesting to you that in the last five to six years it has not been kept in balance. It has not recognized the revenues and where they are really being generated. The revenues are being generated from the roads but are not being spent on the roads program. A lot of static is sort of growing, at a municipal level as well as a provincial level, throughout the whole country, because it is not being spent there.

Mr. Chairman: You have a document there that was assisting you, I think.

Mr. Lawrence: On the figures?

Mr. Chairman: Yes. Would it be possible for us to--

Mr. Lawrence: That comes from the public accounts. You can have that, sure. It comes from the public accounts.

Mr. Chairman: I am going to permit very brief requestioning by Mr. Haggerty and Mr. McFadden, if they will each be very short.

Mr. Haggerty: I think the point was just raised in the discussion there. You are talking about the funds now being paid for the reconstruction or building of new provincial highways. When you are talking about road expenditure, you have to take in the GO system and the transit system in municipalities, where now 50 per cent of the money, I guess, is being provided for capital purchase of equipment and even buying buses to go on long trips down south and that. Somebody did mention about the other area. Somebody talked about the Michigan road network in the United States.

I do not know if you have any discussions in your brief on the matter about debenturing road work. My experience in the past has indicated we have done this in some municipalities. We went out on our township roads and we thought we would go to hard asphalt paving. We debentured that. Have you done any consideration or review of the debenturing of road costs? On the American side it is done through a pay system, a user fee, that is, tolls. Have you ever done anything in this area?

Mr. Lawrence: We have not done anything on the funding. Many municipalities are doing this because their funds are not sufficient to keep up their road programs.

Mr. Seegmiller: We have really tried to identify the problem. We think it is the area of government to identify the method of funding. We have tried basically in the past always to stay away from the funding aspect. We felt that was a government function and we continue to feel that.

However, we are becoming somewhat frustrated because we have been doing these briefs and presentations for probably three or four years now and the problem keeps progressing in a fairly orderly fashion. All we are suggesting is that the government of the day requires a very serious look at this problem. As for the funding method, there are many methods that can be studied. I am sure you have many experts on your staffs who could look at this particular question.

Mr. Haggerty: Is the Ontario Good Roads Association convention this week or next week?

Mr. Lawrence: Next week. The needs we are stressing here today have all been the result of three studies done by TRIP, the Ontario chapter of The Road Information Program of Canada. In all these studies the deficiencies shown have been agreed to by the various authorities that maintain these systems, such as the Ministry of Transportation and Communications and the regions, counties and townships across this province. They agree with those findings.

Mr. McFadden: I have one question that arises out of the question Mr. Morin-Strom threw out here in relation to the priorities that might be given. Perhaps once the problems get ironed out with the Indian reservation, completion might be reached with this road between Sault Ste. Marie and Sudbury. That would be a new road. As you know, there is also pressure to have Highway 407 completed, at considerable cost. I am sure that road between Sudbury and the Sault would be at considerable cost, and I am sure there are all kinds of other roads around Ontario that could be built anew.

In your brief, though, you have mentioned more of a focus on rehabilitation and reconstruction so that we can keep what we have. Where would you tend to put your priority? Given the fact that we are not dealing with infinite sums of money and that, obviously, we have to marshal our resources in the province to meet the financial requirements we have, would you tend, at least in the near future, to be putting more of the emphasis on reconstruction and rehabilitation, as you have said, to keep everything going; or in the alternative, would you suggest that we move ahead with the four-lane road, let us say, between Sudbury and the Sault or the construction of Highway 407? We might not be able to do everything, and I am just curious to know where you would put your first priority right now.

Mr. Ryan: I think, in that sense, the ultimate solution is very simple. To maintain the roads in the condition we have today, the present infrastructure, if we had sufficient funds from the government now, from the funds which are already in place, it would solve that problem.

The second phase would then be new roads, which would be funded by this one cent a litre, which I think the public would accept as a logical extension of a development situation.

Mr. McFadden: Your suggestion is that this one-cent-a-litre tax would relate just to new construction.

Mr. Ryan: If the funds for what we are requesting were available

from current government sources, an extra one cent a litre could then be used to address the problem of new roads.

Mr. Taylor: The trouble is that it gets into the general revenue, and then you do not see it. It is like the Bermuda Triangle; everything gets sucked in and nothing comes out.

Mr. Ramsay: Is he referring to us?

Mr. McFadden: I think you are more like the black hole.

Mr. Taylor: I think the point you are really making is that good roads are vital to a strong economy.

Mr. Ryan: Yes.

Mr. Taylor: If you do not have good roads as an important ingredient to a viable, healthy, economic commercial system in Ontario, you do not have the funds to finance all these soft services. That is the fundamental fact that has to impress government. I invite you, Mr. Chairman, as a voice of the new government, to take this up and make an issue of it.

Mr. Chairman: Mr. Taylor, I think you have ended this submission on a very high note and a very good one.

Gentlemen, you may have felt a certain resistance to the idea of what I consider a submission that was involving entrenched taxes that would go permanently to a specific role. I think you have got through to the commitee, though. What you are basically saying is that while we have a hospital board in our community that is constantly telling us that we need to spend more money on health care, we do not necessarily have a board that speaks for that highway out there. I think you have made a very viable point, and it is one that should be considered very carefully in budgeting.

I think there is a resistance on the part of politicians to cubby-holing moneys and forcing themselves to spend money on something in particular in the future, because of problems that have occurred in the past and changes in society that occur perhaps more quickly than we are prepared to grapple with them. I think you have a very good point, and you have made it very well. I am sure the committee will deal with that when we report to the Treasurer. Thank you very much.

The committee will now adjourn until two o'clock. I will be unable to be here this afternoon. I believe Mr. Epp will be chairing this afternoon.

The committee recessed at 12:19 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

TUESDAY, FEBRUARY 17, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Marland, M. (Mississauga South PC) for Mr. McFadden
Partington, P. (Brock PC) for Miss Stephenson
Polsinelli, C. (Yorkview L) for Mr. D. R. Cooke

Clerk: Carrozza, F.
Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:

From Ontario Hydro:
Rothman, M. P., Chief Economist, Economics and Forecasts Division
Spiro, P. S., Head, Economic Forecasts Section, Economics and Forecasts Division
Crawford, B., Regional Economist

From the Ontario Confederation of University Faculty Associations:
Starkey, Dr. J., President
Epstein, H., Executive Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 17, 1987

The committee met at 2:15 p.m. in room 230.

BUDGET REVIEW
(continued)

The Acting Chairman (Mr. Epp): I call this meeting to order. I think we have enough members present. We have a few coming in right now. We will start with the first delegation, Ontario Hydro. We have with us the chief economist, Mr. Rothman, and Ms. Bess Crawford, Mr. Spiro and Dr. Zerek. Is that correct? All members should have a brief which is fairly voluminous. Mr. Rothman, do you want to start?

ONTARIO HYDRO

Mr. Rothman: I want to thank the committee for inviting us. We are always happy to talk about our outlook with interested people.

I would like to summarize briefly our current view of the short-term outlook and then we would be happy to respond to questions. We are ready with answers in a number of areas. After I finish my remarks I will give a slightly lengthier introduction to the people with me so that you can get some idea of their relative areas of expertise.

In terms of gross provincial product, the total of economic activity, we see the economy currently in the winding-down phase of the expansion cycle that has lasted since the end of the recession of 1981-82. Major factors in leading that phase to wind down will include significant reductions in exports early in this year, especially to the United States and especially in automobiles, perhaps with some reduction in the rate of growth of consumer spending and the fact that the momentum cannot be maintained in the construction sectors.

Offsetting that will be some stimulus from offshore exports in reaction to the fall of the Canadian dollar against non-US currencies, but that export stimulus will not be enough to offset the decline in exports to the US, so we see some slowdown in growth. We do not see a recession. We do not see any of the signs of a typical recession. We do not see the kind of overheating in the economy that can lead to an inflationary blow-off, followed by a recession. We do not see shortages of labour or materials in any major sectors. We do not see interest rates moving up. We do not see the signs that lead to the classic sort of recession we have experienced in the past. What we see is a slow-down in growth and maybe some mild pickup starting later in 1987 and certainly into 1988.

On the inflation front, inflation certainly has been knocked down to below a third of its previous high in Canada, but that is a knockdown and clearly not a knockout. Despite the fact that we see Canadian inflation at four per cent, which a few years ago we would have considered a tremendous success, when we compare Canadian inflation performance to US inflation performance, we see that there is still some way to go in Canada. The fact that we see it only getting to four per cent, despite the fact we have some

really good help from energy price drops, means there is still some inflationary price increase impetus in the Canadian economy. Over the next couple of years, we expect renewed inflationary pressures as the price benefit from the energy fall is over. Wages may start to respond upwards a little. Housing prices are still moving up and there is some possibility of further tax increases, which is one of the things that has led to the relatively poor performance in Canada over the past year.

We are not talking about coming back to double-digit levels of inflation, but certainly we will have a buildup from four per cent or so as a base rather than a buildup from two per cent or so as a base as the US has had. We could see Ontario and Canada coming back into the five per cent to six per cent range within the next few years without a great deal of trouble. On the interest rate front, there is still room for interest rates to fall in terms of real rate levels, but because of this expectation that is fairly widely shared that inflation rates will come up, we do not see a lot of room for further interest rate falls. However, we do not see a lot of room for interest rate increases over the near term. Probably we would not see major interest rate increases until at least some time next year, and at that point we would start to look at it as a sign that we might be coming into a next recessionary cycle.

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In terms of energy prices, where they are now is about where we had forecasted them to be and about where we still forecast them to be. We had not expected that international oil prices could stay for very long at US$9 or US$12 per barrel. We do not forecast that they will stay precisely on US$18. Our forecast for 1987 is an average of about US$16.50 per barrel for Saudi light crude in the Middle East and that is not very far from where it is now and assumes some problems with maintaining the current price level as production and quotas start to come under pressure after the very cold winters in Europe and in parts of North America, taking off the demand pressure on the energy markets.

In terms of the Canadian dollar, we have been saying that the underlying value of the Canadian dollar is somewhere above 72 cents if we look at it on a relative purchasing-power basis for some time, but we had not expected it to come much above 72 cents. We had been forecasting the dollar at 72 cents last year at about this time when it was about 69 or 70 cents and we are forecasting the dollar to come to about 72 cents this year when it is somewhere between 74.5 and 75 cents. We still think there is some potential for adjustment in the dollar. There is the fact of higher inflation in Canada and we see that the underlying financial market conditions would be for the dollar to come back down towards the 72-cent level. I admit to some surprise that it got up as far as it did in the first place, and we expect it to come back down, though perhaps gradually.

That concludes the brief introductory comments I had. Let me introduce the people who are with me. Bess Crawford, on my right, is a regional and industrial analyst who has focused very strongly on the Ontario economy and on industries within Ontario, both in the long and the short term. We have done a fair amount of work trying to track the Ontario economy short term and Bess has done a great deal of that.

On my immediate left is Peter Spiro who is the manager of our economic forecast section and is responsible for our overall macroeconomic forecasts. He is responsible for our forecasts of the Canadian economy and the Ontario

economy, and prices and wages and that whole spectrum, including the financial forecasts, forecasts of interest rates and of the Canadian dollar.

To my far left is Andrzej Zerek. Dr. Zerek's responsibility is primarily in the area of energy prices. He is a student of the world and the Canadian and Ontario energy markets.

The Acting Chairman: Does he accept responsibility for when they go up?

Mr. Rothman: I did not say he accepted responsibility for when they moved; he accepts some responsibility for the forecasts.

I have a brief comment on the document you have before you. You have previously received our fall outlook which is our long-term outlook and is updated once a year. That is a once-a-year look for 40 years out that we do. Right now, in preparation for the upcoming Ontario Energy Board hearings, we have a further review that is aimed two years ahead. That is the document you have in front of you. This two-year review has only very recently been circulated. In fact, I think we got it back from the printers yesterday, so it is fresh off the press.

The Acting Chairman: I just want to point out to members of the committee, particularly those who were here this morning, that it is not included in this summary of prebudget submissions because there are no specific recommendations as there were with the Canadian Federation of Independent Business and so forth this morning. We do have these other two documents to which Mr. Rothman has alluded.

I will start with Mr. Ashe and then we will proceed from there.

Mr. Ashe: You led me right into my question, as a matter of fact. Because there are no specific recommendations per se, and I appreciate that is not what this was all about, that is the question I am going to pose. As economists in various particular areas of guessing scientifically, what would your recommendation be if the Treasurer sat you down in front of him and said, "Hey guys, what do you recommend to keep this economy going in Ontario, and yet not overheat it? I appreciate that you said our inflation rate may rise over the next couple of years back into the five per cent or six per cent range just on its own. Without overheating it too greatly, what are the things we have to do as an Ontario government?"

I am not trying to put you on the spot. There is nothing more behind my question than that. This is the whole basis of what this committee is all about, as you know; to come to some opinions and then recommendations over a relatively short period of time. All input and thought is gratefully accepted.

Mr. Rothman: I have really two reactions. One is that I am a great believer in fiscal responsiblity. This is a personal opinion. I think there is a real temptation--

Mr. Ashe: What American university did you go to?

Mr. Rothman: My undergraduate degree is from Harvard, which is not a bastion of fiscal responsibility, I must say.

Mr. Ashe: No.

Mr. Morin-Strom: It depends on your definition of the term.

Mr. Ashe: I am afraid your accent comes through.

Mr. Rothman: My accent does come through.

There is always a temptation in the up part of a business cycle, when things are looking good, to institute programs that have expenditure consequences down the way. Now is not a time to start looking at new expenditure programs but rather to look at maintaining, essentially, an atmosphere in which business will want to invest; if anything, looking at the kind of investment climate that exists in Ontario without trying to start up new kinds of expenditure programs. We should maintain where we have been. That is a very general piece and it may be that others here have different comments.

Mr. Ashe: I would like to hear the different schools.

Mr. Spiro: I basically agree with everything that was just said except--

Mr. Ashe: You must be the boss.

Mr. Spiro: That was unpremeditated. There was a cartoon in the Globe and Mail or some newspaper recently showing a map of Canada with a big castle in the centre saying, "All well in here." Central Canada, and Ontario in particular, has done quite well. Our unemployment rate is quite low and while there are pockets and certain areas where people are worse off, there are other areas where there are already labour shortages. Therefore, any kinds of measures ought to be directed very specifically rather than trying to stimulate the aggregate economy. I would generally side with the view that since we are towards the top of our prosperity, this would be a time for putting aside money to save for a rainy day.

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Mr. Ramsay: To feed on the deficit.

Mr. Ashe: Are there any other views? I will pass and give somebody else a chance.

Mr. Foulds: You indicated you do not see a classical recession coming forward, but we have not had a classical improvement in the economy either. We have had a business improvement but we have had substantially no employment improvement. We are still running very high unemployment rates, and as you know, in the northern part of the province they are twice that of the south. We have not had what you would call a classical recovery. I would argue that we have had a fiscal recovery; we have not had an economic recovery. If you do not see a classical recession, what kind of a slow-down do you see, and in what sectors do you see that?

Mr. Rothman: That is quite a good point, though I disagree that there has not been a classical recovery. There has been a recovery but it has been very uneven. The resource sectors, especially the mineral sectors, have not recovered to anything like the extent of the rest of the economy. It is very spotty.

As Mr. Spiro suggested, not only is it Castle Ontario, but also it is to some extent Castle Southern Ontario, because the mineral-based industries,

especially those based on base metals in areas of northern Ontario, have not had that kind of prosperity. That is going to be quite a long time coming because of the worldwide situation in those products. In terms of employment, there has been quite a great deal of job creation. I do not know whether we can get this machine turned around so that we can use it, but we do have--

The Acting Chairman: Not everybody can see, particularly those behind the screen.

Mr. Rothman: We have a large number of overheads that we brought with us. We did not know which ones we were going to use so I do not have copies of all them, but we will certainly provide copies to everyone and to the committee.

The Acting Chairman: Perhaps we could move the screen further back and the gentlemen sitting at the back could move further to the front. Pretend you are not in church, and then you can move up. You will have to speak into the microphone, Mr. Rothman.

Mr. Rothman: The point of this chart is to say that there has been a great deal of job creation in Ontario since the start of the recovery. It has essentially out-performed the rest of the economy in that area as well, but it is certainly true that those jobs have not come equally in all areas of the province.

Mr. Foulds: Not only that, you indicate in your section on unemployment that one of the reasons unemployment has not risen is that there are fewer entries into the job market. A lot of that is because of discouraged workers.

Mr. Rothman: It is also because of demographics, but some of it has to do with discouraged workers.

Mr. Foulds: Yes, it is a combination of both. What I wanted to get from you, though, is that you do see a slowdown. Whether we are arguing about a recession or not, you do see a slowdown. I would like to know what areas you see that slowdown in, because if, for example, it is in the manufacturing sector and in the auto sector, then that could be quite serious for Ontario's economy and for Hydro's production of electricity and its overcapacity.

Mr. Rothman: Auto sales in the United States in January fell 22 per cent from the preceding month. It is the largest drop in auto sales ever recorded on a month-to-month basis in the US. There were some temporary factors, such as the fact that there was a tax change coming up. You could not deduct the sales tax on your car if you bought it in January and you could if you bought it in December, so there was that temporary factor. None the less, that was a huge drop. Unsold auto inventories are already large.

So yes, I think a lot of that slowdown will be coming in the manufacturing sector, will be coming in the automotive sector. We have a chart that gives you some feeling for that. It is already happening.

Mr. Foulds: We are interested, of course, in the effect that--oh my God!

Mr. Rothman: That chart gives you some feeling for what has happened to manufacturing shipments in Ontario and gives you some feeling that even as early as early 1986 and certainly into the middle of 1986, we were getting drops in terms of year-over-year effects on manufacturing shipments.

Mr. Foulds: What does that chart outline? Manufacturing sales?

Mr. Rothman: The value of shipments from manufacturing industries in Ontario. Those are year-over-year percentage changes.

Mr. Morin-Strom: That is not a trend as to where the shipments are going.

Mr. Rothman: No.

Mr. Morin-Strom: It is a change in shipments.

Mr. Foulds: That is the absolute--

Mr. Rothman: Those are percentage changes.

Mr. Taylor: It really drops with the change of government.

Mr. Foulds: I notice that there was a temporary rise in early 1986 and now there has been decline since about the middle of 1986. I do not know what that means.

Ms. Crawford: The rise in early 1986 was probably because of the increase in inventories, the buildup in inventories. Manufacturers were producing more than was being sold, so the decline later on in the year is to bring that inventory level down.

Mr. Foulds: It may not be your job, but do you see Hydro as simply responding to demand and responding to need, or is it an instrument to be used to help the economy? Probably Tom Campbell should be answering that question.

Mr. Rothman: I am not quite sure which of two questions you are asking.

Mr. Foulds: What do you see as Hydro's mandate? Does it simply respond to economic demand and trends, and the only reason you forecast is to find out what Hydro should be doing? That solved that one.

Mr. Rothman: Among other responsibilities, I am responsible for the electricity sales forecast for Ontario Hydro. One of the things we started to do this year is to forecast essentially what Hydro will be doing to influence demand in the future. A part of our forecast now is that we expect Hydro to be undertaking significant programs to reduce electricity demand below what it would otherwise be by the 1990s.

We forecast that because the evidence we are now getting from internal study says that is the best way to meet the need for electrical services in Ontario. There are some instances where increased efficiency or better uses of electricity can make electricity available more cheaply than could be done by building new generating stations.

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Although our main forecast suggests we could need new capacity by some time in the mid to late 1990s if nothing is done, we also forecast that Hydro will undertake demand-oriented programs intended at least to postpone that need for new capacity. I think Hydro is increasingly coming to see its role as that of meeting the electricity needs of the province in the most

cost-effective way. That may sometimes mean building supply and that may sometimes mean undertaking programs to control demand.

Mr. Foulds: For example, we generally accept that electricity is not a particularly good form of energy to heat one's house with; natural gas is more efficient, depending on the location and the other factors in terms of the building. Does this mean you are going to curtail some of the more flamboyant ads we had in the mid-1970s?

Mr. Rothman: There you will have to talk to someone else.

Mr. Ramsay: Maybe this guy is the voice of the talking furnace.

Mr. Foulds: Can you tell us whether the Ontario government, the Ministry of Energy or the Premier's office talked to Ontario Hydro about demand and how it meets its demand?

Let me ask a subsidiary question before I forget it. Is one of the reasons you have decided not to go into building additional new plants the capital outlay required and Hydro's present debt load?

Mr. Rothman: I really cannot say what communications have taken place between the Minister of Energy (Mr. Kerrio) and Ontario Hydro. For that, you really have to ask Tom Campbell.

On the question of why Hydro has or has not undertaken to build new facilities, when I look at the forecast and I look at what Hydro is doing, it seems to me we are in the process of trying to decide how we can best meet the need for electricity beyond 1992, beyond the time when Darlington comes into service. There is a sense within Hydro--it is nothing that has been kept very hidden--that a decision has to be made fairly soon on what to do, but no decision has yet been made. Hydro is in the process of working out a process by which it can make those decisions.

Mr. Foulds: What does that mean, that Hydro is in the process of determining a process to make those decisions?

Mr. Rothman: There has been a large-scale study, called the Demand-Supply Options Study: The Options, which is now producing a report entitled Demand-Supply Planning Strategy. That document is to be a basis for public discussion as well as discussion with the government on which criteria Ontario Hydro will use for planning and what kinds of plans Hydro might then arrive at from it. That is what I mean. The DSOS has been about a two-year study, and its result is a strategy for future planning.

Mr. Foulds: When will that be completed and made public?

Mr. Rothman: I cannot give firm dates. I believe there is a target date of mid-year for the start of a public review process.

Mr. Foulds: Could we get back to my original question, which I do not think I have received a satisfactory answer to? You said you saw a slowdown in the economy, and I asked you what sectors you saw that in. We have pinpointed manufacturing and possibly the automotive sector. Are there other sectors that you base that forecast on?

Mr. Rothman: We might see some slowdowns in the lumber sector as well, again because it is a question of what happens as an economy grows. As

you continue to get more and more housing starts, you get growth. To get further growth, you have to move upward from that level. I do not think we are going to be moving upward from the level of housing starts that we were at. I think we will see some levelling off and maybe some slack, depending on what happens in reaction to the lumber export tax. That is another sector that I see as possibly levelling off.

It is similar to the construction sector. Once again, we have had a ratcheting up in nonresidential construction. In order not to have a levelling or falling off, we have to have as many new starts as there are things finishing. In the next few years, I think we will start to see a number of projects being finished without as large a set of new starts. Beyond that, we expect to see continued strength in some areas. The pulp and paper industry has been doing well, and I would not expect to see it slack off significantly.

Mr. Foulds: As long as the dollar does not go up too high. As long as it stays around 75 cents or lower.

Mr. Rothman: I think we could get back some European markets.

Mr. Foulds: Really?

Mr. Rothman: Sure. We had good markets in Europe for pulp. The Canadian dollar has fallen significantly against the European currencies.

Mr. Foulds: That is right. I had not thought of that.

Mr. Rothman: It would not surprise me to see some European markets come back for that industry.

Mr. Foulds: The glut of five years ago is being used up from the Scandinavian countries I believe. I am not sure of that.

Mr. Rothman: I think so.

Mr. Foulds: I had just one other question. You indicated that in general--and it was a personal view--this was not a time to look at new expenditures. I assume you mean governmental expenditures in capital projects.

Mr. Rothman: Yes.

Mr. Foulds: If I can just complete the thought, you said a few moments ago that you saw a levelling off in institutional and industrial construction. You think that the best way to pick up the slack in that is for the private sector to pick it up rather than for government to go in.

Mr. Rothman: Yes. When you have had a round of investment of the kind we have had--we have had a big round of investment in the automobile sector, in the iron and steel industries recently and in commercial buildings--you are going to have some period of absorption of those new capacities before you are going to get another new round. I think we are headed for that. It is not necessarily recession but it means that you will not get the kind of acceleration that you would have when you were in the process of doing it.

Given that you need to do that absorption, I am not sure that it is worth while to try too hard to encourage investment in areas where we are already needing to absorb new capacity. I am not sure that I would try to encourage more commercial construction, for example.

In the housing market on the other hand, there is clearly a backlog. There has been a backlog built up over some time. If we are looking for an area that I think could readily absorb new investment, certainly the housing market is such an area. Although, again, we might see some slacking off in private construction, it is an area that could easily absorb more resources.

Mr. Foulds: That is all for now, thank you.

Mr. Morin-Strom: One of the points that has been made quite strongly by both the Premier (Mr. Peterson) and by the Minister of Energy, both in the Legislature and across northern Ontario, is that one of the initiatives with which the government intended to benefit the economy of the north involved Ontario Hydro directly. Both of them have made numerous statements on this issue saying that Hydro has a very important role to play in the economic development of northern Ontario, particularly in these times. What is Hydro doing about that?

Mr. Rothman: Once again, you really have to talk to someone other than me. My responsibility is limited to the area of producing economic forecasts and analysis. We can talk about that, but in terms of Hydro's policy responses to initiatives from the provincial government, you are really well out of my area. In terms of system planning, of what Hydro does to build and maintain its system, that is an area in which I have no responsibility. I am not trying to be obstructionist or anything like that; it is just not something I can comment on.

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Mr. Morin-Strom: Have you been asked to do any studies or prepare any recommendations in regard to northern Ontario?

Mr. Rothman: Yes. We do have a responsibility for economic impact studies, that is, for assessing what the economic impact would be of various Hydro activities. We have done some studies of that kind with respect to northern Ontario. I do not have with me the people who did those studies and are familiar with them. I believe we have done some studies with respect to northern Ontario, but I cannot tell you, off the top of my head, what they were. If you are very interested, within the next 10 or 15 minutes, we might be able to get someone here who could talk about that.

Mr. Morin-Strom: It would be beneficial to talk to someone about your northern policy. I am quite concerned about the fact that in this document, which has only 50 pages in it--and I have looked through it as closely as I could in the time we have had here--I do not see one reference to northern Ontario. Any comments about Ontario are in the context of the southern Ontario economy and are fairly favourable in terms of where the economy has been and where it is going, with some qualifications.

The only region within the province that there is any specific talk about is the city of Toronto. There is lots of talk in here about the city of Toronto as an entity within the province, but there is no reference I can see to the concerns of any other regions within the province. I would like to know why you have not addressed a regional economic approach to your analysis of where the economy is going.

Mr. Spiro: It is not an attempt to show favouritism. This report is mainly for forecasting electricity sales where it talks about economic growth. Most of the population in the electricity demand is in south-central Ontario.

Mr. Rothman: We have been increasing our capability in subprovincial area forecasting and we are starting to move more closely into trying to build up a forecast from industrial, which would imply some regional focus of the forecast. I agree that in the past we have not focused on subregions within Ontario. We are trying to do more of that and that is something Bess has been working on, partly for the purpose of the low forecast and partly also for our own forecast. You are quite right; as of now, our forecast does not focus on any regions of Ontario.

We look at activity in some regions because we can get information on things like construction activity and investment activity. We know from that construction activity that there is going to be economic activity following it and we do track that for all Ontario. Recently, what we have seen is that activity in southern Ontario.

Mr. Morin-Strom: One of the areas where Hydro has a direct inpact on regional activity, whether it is northern Ontario or other regions as well, is on the rates they charge. Can you tell me whether there is one standard rate charged to all residential consumers and all industrial consumers across the province, or are regions, such as northern Ontario, paying higher rates than, say, users in the city of Toronto?

Mr. Rothman: Frankly, I do not know. Remember that Hydro sells directly to relatively few consumers. It sells most of its power to municipal utilities and to industrial users. I believe that all municipalities across the province pay the same rate to Hydro. For the retail customer, there is an attempt to tie the price of electricity to the cost of service. Clearly, if you have 100 customers along a mile of distribution line, it costs less to serve each of those than if you have four customers along a mile of distribution line.

There is a directive from the province to do rural rate subsidization so that the entire cost differential of that is not paid for by the rural customers. The extent of that and the degree of differential north to south, I frankly cannot answer. Again, that is a different area.

Mr. Morin-Strom: So you do not have data on those. Could you provide us with data on those differentials?

Mr. Rothman: No, I could not.

Mr. Taylor: May I just inject here?

The Acting Chairman: Yes, Mr. Taylor.

Mr. Taylor: On that point, with respect, I question whether that is on the subject of the current discussion.

Mr. Morin-Strom: You want to question whether the subject is relevant?

Mr. Taylor: I would say in response that there is a great deal of material on this matter if Mr. Morin-Strom is interested in it. It goes back, in part, to provincial government policy in terms of assisting rural rates, for example. There has been a lengthy study on it. I am sure that could be made available and would be helpful to Mr. Morin-Strom.

The Acting Chairman: It is true that these rates are determined by

the local utility, and therefore the rates certainly are not uniform. They serve both the industrial and the residential sectors across the province.

Mr. Foulds: I think the very valid point Mr. Morin-Strom is making is that your rate of electricity or any other natural resource affects the economic growth of an area. If industrial customers, for example in northern Ontario, are paying more than industrial customers in southern Ontario because of the discount that is given to southern Ontario customers because of the size, then that impinges economic development in a region of the province in which the Premier and the Minister of Energy have said they want to encourage economic development; so the point that is being made and the questions that are being raised are valid ones. If they are not valid for this group, they are valid for Ontario Hydro.

Mr. Morin-Strom: Can I just make a final point?

The Acting Chairman: Yes.

Mr. Morin-Strom: The point here is that the Premier and the Minister of Energy have said that Ontario Hydro will not be used as a tool for economic development. We have the budget coming up. We are to make recommendations on what is to go into this budget to set a direction for the Ontario economy in the next year. It seems to me it would be far more valuable to have Ontario Hydro come in here and make some recommendations to us that might be relevant to where we should be going with the economy, particularly in respect to things over which they have direct control. The rates of energy provided by Ontario Hydro across the province are obviously an area over which they have some significant control.

The Acting Chairman: Thank you, Mr. Morin-Strom. I will go on to Mrs. Marland.

Mrs. Marland: Mr. Rothman, how long have you held this position with Ontario Hydro?

Mr. Rothman: Over four and a half years.

Mrs. Marland: When you say "we" in the royal we sense, do you refer to all the people who are with you today and further staff?

Mr. Rothman: Yes.

Mrs. Marland: What is the size of the department, or the division, as you refer to it?

Mr. Rothman: It is a division. The economics and forecasts division is about 38 people.

Mrs. Marland: I wanted to ask questions similar to those of Mr. Morin-Strom, because I thought that perhaps there would be recommendations from you as a deputation. Is that not your role?

Mr. Rothman: You are correct. We are not here to make recommendations on the budget. I have a very strong suspicion that if we had been asked to make recommendations on the budget, the senior management of Ontario Hydro would have taken a great deal more interest that they did.

Mr. Ashe: How true.

Mrs. Marland: So you are just here to comment on the economy as you see it through your studies as they pertain to Ontario Hydro.

Mr. Rothman: Yes.

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Mrs. Marland: Can you tell us how the performance of Ontario Hydro compares to the performance of, for example, Hydro-Québec? You are here saying, "This is where we are today in terms of our agency," and I am just wondering whether you are in a position to make that comparison.

Mr. Rothman: In terms of what?

Mrs. Marland: In terms of what Ontario Hydro does for Ontario and what Hydro-Québec does for Quebec. Is there a comparison to be made?

The Acting Chairman: I think you have to keep in mind that their principal function is to predict load, as far as what they do in Ontario goes. They predict the amount of power that is going to be required in the next five, 10 or 20 years, as far as their function is concerned.

Mr. Taylor: On a point of order, Mr. Chairman: I did not want to insert myself when Dr. Morin-Strom was speaking, but can you give some direction to committee members of the latitude we are permitted? I understand Mrs. Marland has some questions that may not be directly on the subject being reviewed by the committee. It strikes me that this is not a committee dealing with the estimates of Ontario Hydro, where we would have a great deal of latitude, and the focus may be much narrower.

For example, if we get into the areas of costing and pricing of hydro, of the big 50 industrial consumers and the fixing of prices for them, of whether it is interruptible or noninterruptible power and of the variations that come about, I think we may be, depending on the detail, getting into areas that will not be too helpful in terms of the budgetary process.

The Acting Chairman: Thank you. I apreciate your bringing us back to that single purpose we have at this point, which is to try to develop some kind of recommendations for the Treasurer (Mr. Nixon) with regard to the budget. Can we focus in on that area and draw from Ontario Hydro some thoughts with regard to that?

I must also draw members attention to the fact that I have shown latitude with respect to time. We were suppposed to finish with this group at 2:45, but because we started about 13 minutes after, I have permitted it to go a little later. But we are going to have to cut it short in a very few minutes.

Mrs. Marland: Lest anyone think my question to Mr. Rothman about his division was based on what it was costing Ontario Hydro, that did not enter my head. The reason for my question was obviously to absorb the credibility and the professionalism of the presentation. Naturally, that was the reason I was wondering about the background. However, if my other question is not appropriate in this committee, I will just pass.

Mr. Ashe: I want to follow up what you just said. If you recall, I asked the question to start with. You can call it the relevant question, if you were making the recommendation, what would it be? I think we got the answer, fiscal responsibility.

Mr. Taylor: Has it come out what the borrowings for Hydro for the next fiscal year will be? I notice you have an anticipation of your rates. I am interested in the money market and so on.

The Acting Chairman : You will have to get closer to the mike so posterity will be able to know what you have said.

Mr. Taylor: I was afraid of that.

Mr. Foulds: So is posterity.

Mr. Taylor: I was speaking for posterity.

Mr. Ashe: Yours or his?

Mr. Taylor: We are both finished.

Mr. Ashe: I was interested in your forecast of your interest rates, the impact of Ontario Hydro's borrowings in the money market and what you see in terms of addressing Hydro's needs. Of course, the province backs Hydro's borrowings. Can you comment on that?

Mr. Spiro: We did not bring along specific figures as to how much Hydro is borrowing. We were expecting to talk about the economy in general. Those figures are available. As I say, we just do not have them with us.

Our studies tend to indicate that the whole North American capital market and, in fact, the capital markets of the developed world, are so closely integrated that any one government, even any one borrower as large as Ontario Hydro, has very little measurable effect on interest rates.

Mr. Ashe: Except the American government.

Mr. Spiro: That is right. You have to get up to about that size before you notice anything. Even there, studies have indicated that the main effect is that people in the bond market are afraid that if the United States government has a large deficit, it is going to lead to higher inflation in the future, because eventually they are going to print money to pay for the deficit. You have a premium on the interest rate on long-term bonds. Long-term interest rates are high relative to short-term interest rates.

Mr. Taylor: Do you see the need for foreign borrowing?

Mr. Spiro: Again, it is not really necessary, because of this kind of integration. For example, if Ontario Hydro borrows more in Ontario, as a result, you might have some private company borrowing in a foreign capital market. It is like one big pool; the water flows in to equalize the level.

The Acting Chairman: Mr. Rothman, Mr. Spiro, Ms. Crawford and Mr. Zerek, thank you very much. We appreciate your coming. We have fairly voluminous information here, which the members have available to them. I am sure if they want more information, you also have that available in your computers and wherever.

Mr. Ashe: We have $5 futures based on you fellows, so God help you if you are wrong.

The Acting Chairman: The Treasurer is probably very envious of the size of your forecasting group.

Mr. Rothman: As I said, we are also responsible for forecasting electricity sales. That is a large chunk of what we do.

The Acting Chairman: Thank you.

The next group is the Ontario Confederation of University Faculty Associations, and we have John Starkey. There is a three-page brief that members should have on their desks. If they do not, Mr. Arnott would be glad to distribute them.

Dr. Starkey, would you please introduce your colleague and proceed?

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

Dr. Starkey: Perhaps it would be in order for me to say briefly who we are. I am here representing the Ontario Confederation of University Faculty Associations, as the chairman mentioned. That is a confederation of the faculty associations in Ontario, of which there are 21, one from each of the 15 universities that exist, plus a few from colleges--for instance, the Ontario College of Art, Ryerson Polytechnical Institute and some of the colleges affiliated with some of the universities.

The Acting Chairman: That does not include the community colleges.

Dr. Starkey: Correct. That does not include the community colleges. It does mean, therefore, that we represent the professoriate in this province, which numbers approximately 10,000 professors.

You have our brief before you. I hope you appreciate its brevity. We hope the message is clear. Rightly or wrongly, we felt that what should be given is the main message rather than a great deal of data and statistics, which we could certainly provide you. The brief attempts to emphasize two things: not only that basically the universities remain massively underfunded--hence the size of our suggestion to you, $500 million--but also that the funding should be redressed in a relatively short time frame.

We believe that Ontario, particularly the economy of Ontario, does not have much time to redress this chronic underfunding in its universities. Therefore, we suggest that although we recognize that the infusion of $500 million could not realistically be expected, even by us, in one year, nevertheless, a short time frame is needed. For want of a better number, we have suggested five years. Of course, if the government insisted that we accept it over a three-year period, I am sure we would oblige.

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The nature of the underfunding of Ontario's universities seems to be fairly well recognized now. I am sure that if anything I say turns out to be not to your understanding, it will show up in your questions, but there does seem to be a general recognition by politicians from all parties, plus large sectors of the public and private industry, that the universities are indeed underfunded.

We acknowledge that there has been some redress of this problem by the present government in that it has increased funding to the universities over the last two years in excess of the increase in the consumer price index. For that we are certainly grateful. We think it is a hopeful sign. At least it is a move in the right direction.

However, we are concerned that these recent additions not be the ultimate step by this present government but that they do indeed represent, as has been said by members of the government, an initial step. Perhaps we have not quite turned the corner yet on the funding of the universities, but at least we are at the corner and we hope to head off in the right direction. Even though we have had an infusion of a little bit more money than we have grown used to over the last 15 years or so, nevertheless, we still see real and continuing difficulties in our universities. These can be grouped into three general areas, and I will treat each separately.

There is the general issue that has become widely described as faculty renewal. That is to say, it has been recognized that, because of hirings of large numbers of faculty, particularly in the mid-1960s, and though there has been little hiring since then, there is now a peculiar demography in our universities such that there is a disproportionately large number of faculty in the age group of the late 40s and early 50s.

That is actually not quite an accurate statement. In reality, one should say that there is not a disproportionately large number in that age group, but that there is a disproportionately small number in the younger age group because, during the period from the 1960s to the present, the number of students has continued to increase while the number of faculty has not. If the hiring of faculty had kept pace with students, we would not have that demographic distribution; we would have the distribution we would all expect: namely, relatively large numbers of younger faculty, which we do not have at the present, and a reduction in numbers with age, which we do indeed have at the present time above age 50.

If we were to return to the 1970-71 student-faculty ratios, we would require almost 4,000 faculty. I mentioned before at the outset that I represent the 10,000 professors in this province. In other words, we are 40 per cent short of the number of faculty we would need to return to the 1970-71 student-faculty ratio. Instead, if we aspire to a student-faculty ratio that is more common throughout the rest of the world than was the case here in 1970-71, and that is about 15 to one--these are the kinds of faculty ratios that exist through most of Europe and the United States--then we would need approximately 1,500 new faculty members. What I am going to do is to highlight one or two of the factors that together bring us up to this $500 million figure.

So then, we see a need for something in the order of 500 new faculty. In addition, we would require, of course, the associated support staff, which traditionally is in the order of one to one. For each faculty member, there is approximately one support staff member required in the universities, either in terms of additional library staff, secretarial staff or research staff.

If one adds additional administrative staff, it actually would exceed one to one. The current ratio of nonfaculty to faculty members in our universities is about 2.2 to one; roughly two to one. Our estimate of one additional staff member per faculty member is indeed a very conservative and modest one.

Note, however, that we are again talking about new people--new staff and new faculty. You probably know that the present government has indeed committed itself to a faculty renewal scheme envisaging 500 new faculty over the next five years. Unfortunately, the way this is being introduced, as far as we can tell at the moment, these 500 individuals represent replacements rather than new faculty. In fact, they are being funded over only a short time frame.

The clear intent is that, eventually, the salaries of these individuals will be coming out of future operating grants. In other words, this is a bridging process of 500 new faculty, particularly--to use the words of the government--to address concerns they have with the hiring of young people and women into the universities. But, in fact, it is a bridging operation. We are arguing that the 1,500 should be new, permanent, continuing faculty members.

As part of our concern, in addition to increasing the number of faculty in order to get down to world-level, faculty-student ratios, we believe there is a real need to increase faculty salaries and, indeed, to increase staff salaries for those who are here in universities at present as well as for these new appointees.

The reason for this is that the universities have been funded in large measure over the past 15 years by awarding those who work in the universities considerably less in terms of increases than, say, the increases in the average industrial wage. Furthermore, the university enterprise is particularly an international enterprise. Therefore, it is imperative that the careers that are offered in our universities to our professors and researchers be competitive. We have to be sure to attract not only the best people in Ontario into Ontario's universities, but also some of the best people in the world. Otherwise, we are not going to be internationally competitive.

That leads me into our second major area of concern; that is, the research dimension of universities. In the area of research, again, there are many interrelated complex issues. I will dwell on just one or two and illustrate them for you.

One that is fairly easily understood is to replace ageing equipment. This is something one hears a great deal about, and I think it is very easy for the general public not to quite understand how serious this problem really is. Maybe I could illustrate it with one or two examples. You may have seen an article in the Windsor Star on January 27. The first paragraph of it reads as follows: "A $150,000, high-tech analysis instrument purchased a year ago remains idle in the chemistry department at the University of Windsor because the institute can't afford $14,000 to repair it." Tall story you may say.

I first went to the University of Western Ontario as a professor of geology in the mid-1960s, a time when the universities were expanding and it was a very attractive opportunity for me to go there. When I arrived there, I purchased a research microscope which, at the time, was state of the art. Of course, 22 years later, it is no longer state of the art, but within my own department, since my area happens to involve optics, it is still acknowledged by all my colleagues to be one of the best microscopes in that department.

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When I go on sabbatical leave, which I have done twice, I take it apart and lock it up in the basement. Why do I do that? I do it because when I come back I want to make sure that it has not been piratized and that it is still in working condition. That is a real concern I have. That instrument is irreplacable. I could not afford to replace it at the present time, nor could my institute. In order to protect it, then, I have to take these rather childish-appearing precautions. There are other professors who do similar things with other pieces of equipment.

The need for replacing aging equipment is I believe very serious. We need then to look after the basic research needs of our universities at the

present time before we get too concerned with the development of high-tech industries.

This, of course, is a reference to the Premier's council and the $1 billion high-tech fund in support of high-tech centres of excellence. It is not that we at the university are opposed to the development of such centres of excellence.

Indeed, we believe, and I think we can demonstrate that such centres have developed naturally in the past from universities. They have developed in universities that were adequately funded. Research efforts develop in universities and there is a natural organic growth of excellence.

That has always been the case, in Ontario at least since 1945; it will always be the case in the future, providing we preserve our universities and give them adequate funding.

So, the notion of putting in these high-tech oriented science centres of excellence is not of great concern to us other than the fact that it is likely to distort the basic research that is fundamental to the universities. With very few exceptions, and the exceptions are by and large not in Canada, the only place where basic research is done is in universities. Simply put, no basic research means no high-tech, no science, no nothing.

Basic research and basic science are absolutely fundamental to a modern industrial society. Without them we cannot survive. We believe they have to be preserved at all costs and they have to be preserved first.

Our first priority therefore, is basic research and we therefore are a little nervous of the intervention by the government into the universities through things such as funding the centres of excellence because it may well distort the picture of what is going on at the universities. Perhaps more important, we are concerned that it will divert money from basic research in the universities.

Turning to accessibility, of course another major area of the universities is the students. In fact, one can simply say that a university is nothing more nor less than a bunch of professors teaching a bunch of students and generating knowledge. That is what a university is all about.

To us the students are very important. Accessibility is quite a complex issue. I will look at one or two dimensions of it and particular things that have economic significance to us. We would like to see that tuition fees be kept down as low as possible.

Many studies have shown that it is a fact that socioeconomically disadvantaged groups of the population are currently underrepresented in the universities and always have been. If we do not remove or at least reduce the economic barriers to those groups to get into university, they are going to continue to be underrepresented.

It is not just the cost of putting up roughly $1,300 at the present time in tuition fee; it is all the costs that go along with that, such as a relatively poor family having to forgo the earnings that might be brought from having their son or daughter work instead of going to the university and having to pay the expenses of their son and/or daughter to go away to university.

We also want to see the removal of the differential fees for visa students. Again, there is a cost associated with this of the order of $40 million. We believe that this is important for a variety of fairly obvious and good reasons, not the least of which is the fact that in the past it has certainly been the case that when students trained in another country, such as Canada, go back to their own country, as the majority of them do, they are basically ambassadors. If they have been treated well in Canada, have learned well in Canada, and have developed loyalties in Canada, which many, if not most of them, have, then they are, in fact, ambassadors of goodwill for Canada.

So, there is a great deal of indirect economic payoff and I think it is very shortsighted of us to discriminate severely as we are doing against the visa student. As I say, there are other reasons but I think that is a fairly obvious one.

Returning now to the more general level of accessibility to our universities in Ontario, again I think there is a very telling study by the Carnegie Institute in the United States which demonstrates, or at least claims, that in order to compete in a modern society the formula that it recommends is not to have an elitist group, not to put a lot of education into a small part of the population. It argues that the Japanese are already doing that, and the United States certainly cannot compete on that level. I would submit to you that Canada can do even less so, and what is true of Canada is certainly true of Ontario.

What is more important is that they are finding that, in terms of economic growth and potential, the best formula for success is to have a generally, well educated populace. We believe, therefore, there should be more access to universities rather than less. At the present time, as you probably know, in Ontario we are turning away at least 1,000 qualified applicants to university each year. I am not saying anything about those in some of the socioeconomic groups that do not even think of applying to university but who, nevertheless, could academically qualify. We are, in fact, turning away well-qualified students with 80 or more per cent averages in grade 13 from programs of their choice in the universities. We do not believe that Canada, in the relatively-short term, five or 10 years, Ontario in the same time range, can afford to do this. We need to educate our young people, more desperately today than we ever have in the past.

There is now a very well recognized accumulated shortfall in funding of universities. There are all kinds of numbers we could quote to you. I do not think there is a great deal to be gained by doing so. You can take any measure you like, any economic measure, the amount of money per student in university, the amount of money per student per capita of the population, any economic index you care to choose, Ontario turns out to be at or near the bottom among all 10 provinces.

There is plenty of evidence that we have continued underfunding in Ontario. This has accumulated to large sums of money. I can produce numbers anywhere from $230 million, that was the number that was quoted by the government's own advisory body, the Ontario Council on University Affairs, in terms of the shortfall summing up their advice of the last 10 years to allow the universities to continue what they were doing, not expand, but to continue what they were doing over the last year. That is what they recommended. If you subtract from that what the government actually gave, the sum is $233 million.

If we return to the 1977 established programs financing funds from the federal government to the provincial support ratio, which was 75 to 25 per

cent, now it has gone to 90 to 10 per cent, in other words, the provincial government is putting in less money. If we return to the 1977 level ratio, which the Premier (Mr. Peterson) mentioned when he was running for election in the last election, that amounts to a shortfall of $300 million. So there are recognized large shortfalls in funding from where we are now.

I would emphasize that what these shortfall figures say is where we are if we want to return to the status quo. I would submit to you that we cannot afford to return to the status quo. We have to do better. We believe that we need to expand our university system. We believe we need to educate more of our young people. At the present time, as another statistic, we all like to see statistics although I apologize for not having pictures to show you, if we look at the number of Ph.Ds produced per capita in terms of what we would recognize as the western world, Canada is one notch above Yugoslavia, one notch below Iceland. We are well below any of the other European countries you care to mention, sorry, with the exception of Portugal. We are just a little bit below Portugal. In terms of the other European countries, we are well below. We are not even in the same ball park as our major competitors, namely the United States and Japan.

Time is running out. The rest of the world will not allow us time to catch up. We have to be competitive as soon as possible, if we have not already missed the boat. We are arguing as strongly as we know how for an increase of funding to the Ontario university system in the order of $500 million. That would bring us into being the best-funded university system in Canada. That is all. Not in the world. It does not put us in the same class as Stanford, or Berkeley, or MIT or the Sorbonne or the Swiss Federal Institute of Technology. It just makes us number one in Canada, and it therefore gives Ontario, we believe, a fighting chance of surviving into the 21st century.

<u>The Acting Chairman (Mr. Epp)</u>: I know some members of the committee have questions. Before you start I want to apologize to Mr. Epstein. Do you have any comments you want to make before we have questions?

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<u>Mr. Epstein</u>: Not at all, but I would be happy to respond to any questions.

<u>Mr. Ashe</u>: First, Dr. Starkey, the main theme I got out of your presentation, in terms of your view and the body you represent, which is highly regarded in this country, is that you would like a blank cheque from the taxpayers and you are sure you could spend it in one way or another. Having opened with that rather cynical statement, I do have some specifics.

You talked about tuition fees. Unless there has been a drastic change in the numbers in the last year or so, and I grant I may be out of date in the past year, it seems to me that the last I saw was the tuition fees, on average, accounted for something like 15, 16 or 17 per cent of the cost of the university education. I appreciate it varies from faculty to faculty. The Ontario student assistance program generally, always mechanically, albeit in my view a little behind the game, having handled some of the issues, seems to fill the bill.

Why would you suggest that the general taxpayer, who now pays 84 or 85 per cent of the bill, whether they utilize the system directly or not, should pay more? I do not understand that.

Dr. Starkey: It seems to me that--

Mr. Ashe: Excuse me. Maybe I can tie in another one in the same vein that may save another question and another answer. You talked about the system currently turning away about 1,000 qualified students a year. You used the figure of 80 per cent. That is not my understanding at all. Maybe you could clarify it. Maybe it is in the reference to somebody with their first choice.

It is my understanding, and it has been put out practically by both the old government and I have heard it since by the new government, so I say it nonpolitically, is that every qualified student has a place in the post-secondary system in Ontario. They may not get their first choice, true, but there is a place in the system. They may want to go to the University of Toronto and they only get accepted in Thunder Bay.

Mr. Foulds: Or they may want to go to Thunder Bay but only get accepted at U of T.

Mr. Ashe: That is not likely to be the way it would work.

Mr. Foulds: In forestry it would be, George, come on.

Mr. Ashe: It could be. Anyway, it does not really matter. My point is that has been my understanding for the last number of years. I would like you to tell me that. It may tie in with the general idea of funding, tuition, and so on. That is why I would like you to clarify it.

Dr. Starkey: Okay. I will see if I can answer the questions in the order that you put them. If you feel I have not I am sure you will ask me to do so at large.

First, we would argue that part of the answer to the first question--namely, why should the general taxpayer pay more of the education of those who go to university--again, it is very easy to give a simple answer, but I think that would be hiding things a little bit.

First of all, we believe that university education, and in particular university-educated people, are indeed a resource to this province. That is the major raw resource of this province going into the 21st century. The only other one I would put in the same ball park--I am a geologist, remember--is water. There are not any other resources that are of importance to Ontario. That is leading with the chin, I realize, but there are no other resources that are important to Ontario going into the 21st century that are even in the same ball park as water and education. So in fact, I think it is an investment by the taxpayers in their own future to put money into their education system.

Second, at present, if one looks at the students who are receiving what I suppose you are suggesting is a subsidy from the general taxpayer, those people by and large are the better-off people, the people who are in a higher economic level.

Why? In part because the people at lower economic levels, for a variety of reasons, are not likely to go into debt, to take out or to encourage their children to go into debt to take out the Ontario student assistance program loans or grants you are referring to, partly because, first of all, they are not of that mindset. There is not a tradition in the family, generally, of having their children go to university. But perhaps more tellingly--and again, this is going from some of the studies that have been made--they basically do

not consider that going into debt to the tune of $40,000, which is roughly what an undergraduate degree will cost them individually--roughly $10,000 a year by the time you throw in tuition, and assuming the child is going to live away from home, it is roughly $10,000 a year times four--is a large debt for that type of individual to take on.

To add to that, although I admit the fees were part of the $10,000 number, the $1,300 fee that I mentioned before is a significant part of that for the socioeconomic group I have in mind. Therefore, we would argue that the fee level is, in fact, a deterrent at present for a large part of our population, and I think to have a well-educated population is a benefit to all of our population, all of our taxpayers.

Mr. Epstein, do you want to pick up on that?

Mr. Epstein: I would make two points. One is that, with respect to the tuition fees, we certainly do recognize that tuition is not the only barrier to the lower socioeconomic status student going to university. We recognize that there is a whole multiplicity of factors involved, from the very beginning of their birth all the way through to the time they finish or do not finish high school, as the case may be. We recognize that is a problem that can be tackled only over a long period. At the same time, the longer we delay, the more serious the problem becomes, and we certainly do see tuition fees as a part of that barrier, although it is not the only part.

With respect to the other question you asked about the nature of those students who were turned away and were not able to get into university, it is certainly true that not all of them will be students with an 80 per cent average. I think what Professor Starkey meant earlier was that there are some programs you cannot get into even with an 80 per cent average.

On the other hand, I do not know that your observation was correct when you suggested it is entirely clear that the promise that was made was a spot in some program at some university. I do not think that is so clear. It certainly has been articulated that way in recent years. The earliest statement of the promise that we can find in writing was made in 1959 by the then Treasurer, James Allan, who at that time said, "The government's objective is to ensure that no student who has the capacity will be deprived of the opportunity of attending university and developing his talent to the fullest possible extent."

It seems to me it is not clear that that statement did not contemplate individual students making their own choice about what they think is the subject they ought to study. The reason students are not now able to study all the subjects they wish to study is that the programs do not have the capacity to admit the students in the numbers to which they apply for them.

There are a whole number of factors that account for the way the courses and programs are now structured so that there are limitations. It is far from clear that student demand ought not to drive the system. I tend to think that student demand ought to drive the system, and perhaps we should think more about what the original promise was.

Mr. Ashe: Surely, though, part of not being able to get into a particular degree course also is, we hope, somewhat relevant to our economy and its capacity. If all of a sudden everybody wants to become an engineer, surely we are not stupid enough to put everybody in an engineering course, or to become lawyers or to become doctors. That is part of the control. If we

want fewer lawyers, as we usually do, we raise the entry level. In a sense, you can say that somebody got turned away from being a lawyer, but it was only in relation to the realities of the future absorption rate. Surely to goodness that is responsible planning. As you can imagine, Mr. Taylor is a lawyer.

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The Acting Chairman: I think this in itself can become fairly lengthy in a discussion. I do not think we are going to resolve it. If you want to get on to some of your other questions, Mr. Ashe, we have three other people who have questions they would like to ask.

Mr. Ashe: I will try. I have a whole flock of them. I could spend a couple of hours with you, but I will not. You talk about growth, and it all comes down to dollars and cents, that is for sure. I do not think anybody will dispute the fact that the universities have not got their fair share of the pie in the last number of years. The numbers speak for themselves. The roadbuilders told us that earlier too. The numbers also speak for themselves. As to how much more the taxpayer wants to put in either one, both say the taxpayer is behind them 100 per cent.

Other than acknowledging that fact as a given, is it not a little unfair when you put Ontario at the bottom in the current funding level, in relation to other provinces, anyway? Is it not a little fairer to recognize that we started doing it in Ontario in the 1950s and 1960s--I guess you could even say into the earlier 1970s--started to put out the big dollars to build the infrastructure before most of the other jurisdictions in Canada did? Granted, we have to keep it up; I accept that as a given. Maybe we have not kept it up to the degree we could have, but surely we had a finer and more costly basic infrastructure there before the other guys started doing it.

Dr. Starkey: Ontario was certainly fairly quick off the mark after the Second World War in the 1940s; that is true. The whole ball game is so rapidly changing, I think there is a great tendency to regard the universities as fairly static things that do not change a great deal. I have even heard some of my colleagues say that, and I have often wondered where they have been for the last 20 years. Certainly 20 years ago there were no departments of computer science; even 10 years ago there were not very many. Certainly 20 years ago Ontario was not putting money into building computer science departments; not even 10 years ago. This is something that has been around as a discipline only in the last five, six or seven years.

Part of the answer to your question is indeed that--you really answered it yourself--one has to keep going. One cannot stop and mark time. Just because one built up a good infrastructure in the past--and it was a good infrastructure in the 1960s--does not mean one can continue to coast for very long without in fact massive, continuous overhaul and maintenance of that system.

Mr. Epstein: It is also not quite accurate about the other provinces either. The three provinces in Canada that have the most universities are Ontario, Quebec and Nova Scotia. In Nova Scotia there are no new universities. They have all existed for 100 or 150 years. There is one, the technical university, that started about the same time Ontario started to build those. In Quebec they have had the same kind of parallel growth. They had a few older universities and built a new system at the same time Ontario did. As for the western provinces, the universities there all go back quite a way except for a few that they have built or added on to in recent years. There has been fairly even growth around the nation, actually.

The Acting Chairman: Mr. Ashe, if you will permit me, I am going to have to go on to some of the other members who have questions.

Mr. Ashe: That is too bad. I have many more.

The Acting Chairman: I can appreciate it and I am sure they are good questions.

Mr. Ashe: They get better. Go ahead.

Mrs. Marland: I must agree with Mr. Ashe. I think this is a very interesting discussion and I really wish there was not a time limitation on both sides, because we might better be able to understand the problems they are presenting and they might be able to hear that, outside of their fraternity, we have very difficult decisions to make.

What is the average salary of a full professor in Ontario?

Dr. Starkey: I believe the latest figure is about $53,000.

Mrs. Marland: What about a department head or a dean?

Dr. Starkey: That is handled slightly differently in different universities, but by and large, as far as one can generalize, they are usually treated as supplements to salary. For being a department chairman of the largest department--maybe 15, 20 people--you would expect to get maybe $5,000 or $6,000 as a supplement. As a dean of a major faculty--a faculty of science, arts or social science--you are probably looking at a supplement of about double that.

Mrs. Marland: A dean of a major faculty may be in the $70,000 range?

Dr. Starkey: The high sixties.

Mrs. Marland: I was just wanting to compare it to the private sector. I am very interested in what you were saying about reducing the fees for the visa students, particularly following on the fact that you were making a plea for more funding for resident students. I wonder how you feel that can possibly be accomplished? On the one hand, you talked about the advantages of visa students' being ambassadors. Would you not also agree that young people in Ontario who have the benefit of university education become ambassadors for our province in their own right by succeeding in business ventures outside North America?

Dr. Starkey: Yes. In fact, there is another dimension to that, which is perhaps of more direct pertinence to those in university: That is, a large number of Canada's and Ontario's young scholars are trained abroad. I am not sure what the recent number is, but I remember seeing that, in terms of graduate students from Canada as a whole, there are likely to be a few thousand being trained overseas in any one year. Of course, they also operate as ambassadors.

In our view, that is another argument for removing the differential fee for visa students. The training of Canadian students abroad has been going on for many years, especially in the early years, when they were not able to get training in Canada because the programs did not exist. Then Canada was very dependent, particularly on the United States, Britain and other countries in Europe, for training Canadian manpower.

We would argue, in a rather idealistic way, perhaps--nevertheless, I think it is a very valid argument--that in those terms, Canada owes the international scientific and educational community a debt of gratitude, which we believe it should repay in kind by now offering similar advantages to other less-advantaged nations.

Mrs. Marland: That is an interesting perspective, but I think Canada and the US are repaying that kind of indebtedness all the time through their foreign aid programs.

In dealing with the visa student in particular, the difficulty I have had with people who have called me is that they even have difficulty with the existing differential in fees. Institutions exist because of the generations of funding and support by the people within our province particularly, but also every province.

There are many people who have difficulty because of the minimal number of openings in the most prestigious courses. Maybe you could take medicine at the University of Toronto as an example and look at the percentage of visa students who are in those courses, selected, obviously, on their academic record. You will have other students who are not able to have that access, because those places are taken up by these visa students. When those institutions are being 86 per cent funded by the taxpayers of the province, we would be in a lot of trouble without the differential of fees.

Dr. Starkey: I can turn to historical data. Up to three or four years ago, when the differential fees were introduced in Ontario, roughly 10 per cent of the student population were foreign students. Now it is down to less than five per cent and still going down, so we will end up with fewer.

The magnitude of the problem you are talking about was 10 per cent. That is not to say it does not exist; clearly, 10 per cent of students there were occupying 10 per cent of the places. However, as I also just mentioned, as far as we know in terms of applicants to the university--I recognize this is something of a convoluted argument--at the moment we are turning away about 1,000 Canadian applicants to Ontario universities. You could argue that those 1,000 places were being taken up by foreign students. Perhaps you are right; I do not know the answer to that. Our point is that the system should be expanded to take care of both of those.

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The magnitude of the expansion we are talking about is not that great. To put it in terms that you started off your question by using--foreign aid--the amount of money we are talking about is infinitesimal. The amount of money that goes into foreign aid through the Canadian International Development Agency and other organizations is very large. I would suggest that, in terms of the foreign student issue I have raised, we would probably get--and I recognize the use of the word "probably" there; I cannot prove it--I believe we would probably get a good return on that aid dollar by training foreign students in Canada and sending them home, maybe as good as we get on the dollar we spend in the country through our foreign aid program, maybe better.

I do not know whether the relative levels are the same. I do not think, though, that is nearly as important. What I am suggesting is that because you take a foreign student, bring him into Canada, educate him and send him back, it is not money wasted. It maybe does not give you an immediate dollar return.

Maybe the first thing he does when he gets to his country of origin is not to go out and buy a Robertson-head screwdriver, which is only made in Canada; nevertheless, ultimately there will be some payoff in most cases from those people. After all, they are going to form the élite in their own country.

Mrs. Marland: I want to be very clear: I am not suggesting that visa students are a waste of money; I want to be very clear about that. All I am saying is that you are here pleading for more support for students. You know the government is not a money tree; the government is you and I. We have to recognize that the government has to make priorities, that we cannot pluck the money off the tree to address those needs.

You mentioned that there are 10,000 professors in the province. How many university students are we talking about?

Dr. Starkey: There are roughly 40,000 per year, so multiply it by four. That is roughly 160,000 undergraduates. My guess is that you are probably looking at another 20,000 graduate students, maybe as high as 30,000; so of the order of 200,000 students all together.

Mr. Epstein: Only three per cent are foreign students.

Mrs. Marland: I recognize that the percentage has decreased. That is a question I am asked.

One other question I wanted to ask--

The Acting Chairman: This ought to be short.

Mrs. Marland: If the answers could be a little shorter; I am only on my second question.

The Acting Chairman: Yes, I know.

Mrs. Marland: We talk about the needs of the students in terms of the fees and where the fees are, and we are always wrestling with the fact of the percentage of increase in fees for the students over, say, the last five years. I am saying that as a mother of three people who have put themselves through university.

You talk about the need to keep those fees where they are and give the students more help, and you particularly address the lower socioeconomic groups. I never hear the universities, or even the students themselves--and I have told them this--say that five years ago students in part-time jobs were earning $2.50 or $2.75 per hour and now they are earning $4.25 or whatever it is, and if they want to do something a little more manual or a little more strenuous, they can earn $8 or $9 per hour. I am not convinced that the change in the potential income for those students to work their way through university is recognized when we plead for university assistance in fees.

Dr. Starkey: I am not quite sure I know what your question is. You are suggesting that the students are now earning more money than they did in the past and therefore need less help. Is that what you are suggesting?

Mrs. Marland: Yes. I am suggesting that when we talk about our hesitance to increase fees because students cannot afford them, do the universities recognize that the earning power of those students has greatly increased?

Dr. Starkey: Yes, I think so; the universities do recognize that. They recognize, however, that although student fees by and large have gone up by the consumer price index, or rather less in the period you are talking about over the last five years, everything else has also gone up by CPI. It is not just the fees that the students are having to fund; it is everything else. You are suggesting that the increase in their wages has been in excess of CPI, and therefore, if you like, there is a net positive balance. I do not know whether that is true.

I am the father of two children who have also gone through university recently. One is just finishing this year. I am certainly very sympathetic to people who are in a lower socioeconomic class than myself with regard to getting their children through university. I am sure it is a big drain on their resources.

In addition, I think that for them, the psychological barrier represented by paying any fees is much greater. I recognize the benefit of a university education. I do not like paying the fees but it is a reasonable thing to do and I am prepared to do it, to help my children get over that barrier. All I am suggesting is that people in other socioeconomic classes do not see it that way. They say: "I never went to university. Why should I help my children overcome that barrier?" I do not think that is a price that we as a province can afford to pay. It is to the advantage of us all to have all those children in the university.

Mrs. Marland: Maybe what we should be doing is paying attention to those students who require scholarships to get there and not be so concerned about the differential in the visa student fees. We cannot plead it both ways.

The Acting Chairman: To put it another way, Dr. Starkey, when I went to university, and it is longer than I care to remember, in 1958-61, I was paying around $400 to $500 in tuition fees. I went out and got a secondary teaching position and in the first year, in 1961, I got $4,500. Students now pay about $1,200 for an arts course and they go out and make $30,000 to start with in secondary--

Mr. Morin-Strom: Not too many.

Mr. Acting Chairman: It is $25,000 to $30,000.

Dr. Starkey: I do not think your average arts student would start at $30,000, with all due respect.

The Acting Chairman: Would it be $25,000?

Dr. Starkey: Probably more like $20,000.

The Acting Chairman: On that simple example, what you earn after you get your graduate degree as opposed to what you paid in tuition is much larger now than it was then. I am just talking about a straight arts degree.

Dr. Starkey: I have one short comment. I suspect that you paid back your tuition fees to this province, assuming you were educated in this province, manyfold in the taxes you have paid. That is certainly true of the student today also.

The Acting Chairman: More than I care to mention.

Mr. Foulds: You cannot have it both ways.

The Acting Chairman: Mr. Foulds, you happen to be next.

Mr. Foulds: There are a whole series of things I would like to go into and do not have time to. I would like to know what your definition of basic research is.

Dr. Starkey: In a simple term, because I have been asked to keep my answers short, it is curiosity-driven research.

Mr. Foulds: That is in all fields.

Dr. Starkey: Yes.

Mr. Foulds: That would be in arts, political science--

Dr. Starkey: Political science, social science, physical science, any science.

Mr. Foulds: I was much struck when John Polanyi won the Nobel Peace Prize and said that he would not encourage--there was one comment that really quite shocked me when he said he would not encourage students to particularly pursue a career in Canada because of the lack of opportunities in kinds of research. Could you elaborate on that for us?

Dr. Starkey: Very shocking, yes. My son is graduating in computer science at the end of this year and I am encouraging him like hell to go to the United States.

Mr. Foulds: Why?

Dr. Starkey: Because that is where the opportunity is.

Mr. Foulds: In terms of both studying and job opportunities?

Dr. Starkey: I believe so.

Mr. Foulds: In both.

Dr. Starkey: Yes. I might add that I have been thwarted for the moment because he has been given a job by IBM here in Toronto for more money than you were suggesting just now, so he is not looking to go to graduate school. This is with a bachelor degree in computer science.

Mr. Foulds: You indicated that you felt universities were still the major place where research is conducted in this country.

Dr. Starkey: Basic research, yes.

Mr. Foulds: Where else would it be conducted?

Dr. Starkey: Northern Telecom conducts some in Canada. The big one that really stands out is the Bell Telephone Laboratories in the United States. There are a few other industrial concerns that conduct basic research. As I say, the big one in Canada is Northern Telecom.

Mr. Foulds: I am sorry. You misunderstood my question. Where else would we expect research to be conducted if it were not in the universities?

Dr. Starkey: Are you talking about basic research?

Mr. Foulds: Yes.

Mr. Epstein: Surely the point is there are lots of other places where applied research could be carried out, rather than at the universities. I think that was the point that was being made earlier. It is certainly true that universities are where basic research is done and it is exactly the place where you would expect it to be done. The problem is that they are being looked to more and more to do the applied research, whereas one would naturally expect that should be done in the private sector and in specialized government labs for that purpose, not to the point that it is now being looked at for the universities to do. That is our concern; a little nervous, I think is what Professor Starkey said.

Mr. Foulds: In view of the time limitation we have, I would like to ask you this question. In sheer economic terms, what does the university system add to our province?

Dr. Starkey: It is a difficult question to answer because I do not want to trivialize it. It is adding to our province in most things. I heard our colleagues in Ontario Hydro talking about the resource-based economy. In Ontario in particular, and in Canada in general, we have been predominantly a resource-based economy for many years, certainly all through the 20th century. It is only just now changing.

Even if we look at the resource-based economy, a lot of that was developed through some of the research going on in the universities. It has had a place in the universities, particularly in terms of milling techniques, extracting metals from our mines and proper management of forests. All these things are based ultimately on basic research that was done, most of it, in the universities. Dollar amounts I do not know.

I suggest to you that as large an effect as basic research in the universities has already had on the economy of our province, it is going to have much more in the next 20 years because we are entering a nonresource-based economy. We are entering an information-based economy. We are entering a so-called high-tech-based economy, one that requires highly educated, research-capable people. These are the people who are produced by our universities. Whatever the effect has been in the past, and I think it has been large, it will be even more in the future.

Mr. Foulds: The lack of research of course has the reverse and opposite effect.

Dr. Starkey: I think so. If we do not indulge in research, then basically we will be a net importer of technology, as in fact we already are. Essentially, we will have to look to living off handouts from our competitors. If the United States will allow us to manufacture Canadarms, we will manufacture Canadarms, but if it decides it does not want us to do that, we will be out of business.

Mr. Partington: You were talking about accessibility to universities by students. We were talking earlier about the growth in the infrastructure of universities. Is there not greater accessibility for students now to universities than there was back in, say, the chairman's time of 1961?

Dr. Starkey: The short answer to that is yes. I do not know what the figure was when the chairman went to university, but it was certainly a smaller percentage than it is now. At present, I believe it is true to say 16 per cent of high school graduates, students going through to grade 13, go on to university. I guess that in the chairman's time, which is probably not very different from my time, it was perhaps around four or five per cent.

Mr. Partington: Or mine. Is there some optimum level at which it may be to a student's detriment to go on to university for a degree? In other words, have you lowered the standards to increase the numbers or do you think everybody, regardless of dedication, determination, IQ or whatever, should be able to go to university if he wants to go.

Dr. Starkey: We would never maintain that everybody should go. We believe that everybody who is capable of going and benefiting from going should go.

Mr. Taylor: Should go or should have the opportunity to go?

Dr. Starkey: Should have the opportunity to go to university. We certainly do not want to force anybody to take opportunities.

There is also another dimension to your question. Referring back to my answer to the last question, at the time I went to university, we had a resource-based economy in Ontario. The need for skilled manpower was less than it is now and less than it will be in the future. At present, because of the increasing size of our service economy, the increasing complexity of the work place and the decreasing importance of resources, we have a changing need. We believe we need more highly trained people.

Mr. Partington: There is one other area I would like to ask a question on. With respect to the cost of education, I was surprised when you said $10,000. I have a son starting next year at university and was hoping it would be more like $7,000, but I will have to get ready for $10,000.

Dr. Starkey: Check with me a year from now and see who is closer to being right.

Mr. Partington: You are probably right. With respect to the cost of education in Canada as compared to the United States, if a Canadian were to attend Cornell University or another university of that nature in the United States, would the cost be substantially greater than it is here in Canada?

Dr. Starkey: Do you mean in terms of fees or total costs?

Mr. Partington: Fees and total costs.

Dr. Starkey: In terms of fees, it depends on whether you are talking about a state institution or a private institution. California is the jurisdiction I am most familiar with, having lived there for a while. Stanford University student fees are very high. At the moment, I believe they are in the order of--I certainly would not want to be quoted, but I think they are in the order of US$4,000 to US$5,000. If you go across the bay to Berkeley, which is part of the state university system, the fees for your first year are around US$2,000. Then you establish residence and they drop to around US$700 or US$800. The fee level is very different in different universities in the United States. That is not something we have in Ontario. Fees in all Ontario universities are very similar.

At the same time, by and large the state government in the state university systém, as opposed to the Ontario government, and in the Berkeleys, not in the private system, is clearly funding far more of the student's education because it is accepting so little in fees. Of course, their system is more expensive. They have higher faculty-to-student ratios. They have revamped their system. It is a more expensive system and more of the cost is being met by the state in the state system.

At Stanford, which is a private institution example, a relatively larger amount of the cost is being met by the student. There is no simple answer. In general, the cost of education is higher in the United States, but I would suggest that at the moment at least, in the better schools the quality in terms of the facilities available for education is also higher. They have better libraries, better laboratory space and more modern equipment.

Mr. Morin-Strom: I have a slight point of clarification. Having personal knowledge of the situation at Harvard University and the Massachusetts Institute of Technology--and I believe Stanford would be in the same ball park--

Dr. Starkey: A little bit above.

Mr. Morin-Strom: The tuition at either Harvard or MIT is $10,000 or more.

Dr. Starkey: Maybe I am out of date.

Mr. Morin-Strom: That is just tuition.

The Acting Chairman: I want to thank you, Dr. Starkey and Mr. Epstein, for coming before this committee today. Members, if you want to ask some additional questions, I am sure you will be happy to ask them after we adjourn the formal part of this meeting. I want to thank the members for their indulgence. We are running well over the time allotted for it but it is a very interesting subject.

The committee adjourned at 4:04 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

WEDNESDAY, FEBRUARY 18, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.
Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:
Sargent, E. C. (Grey-Bruce L)

From IBM Canada Ltd.:
Murray, G. G., Vice-President, Law and Corporate Relations
Hutchison, J., Director, Taxes

From the Ontario Mining Association:
Reid, P., Executive Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 18, 1987

The committee met at 10:12 a.m. in room 230.

Mr. Chairman: Let us get started. We have a busy schedule this morning. The first case before the court is that of the MPP for Grey-Bruce since 1963, Eddie Sargent. You have in front of you Mr. Sargent's suggestion, VIT: A "Democratic" Approach to Taxation. Perhaps he will lead us through it.

EDDIE SARGENT

Mr. Sargent: I am very humble telling you fellows about new ideas and suggestions for government. For a long time, I spoke of this in the House when I was in opposition, and it always gained opposition support, but nothing happened in the government.

Mr. Ashe: Nothing has changed.

Mr. Sargent: Now some of them might listen. In all reality, I have a growing fear of the power of the banking system in this country, and this is one way we can attack the banks.

How much time do I have? I will try to be brief.

Mr. Haggerty: All the time you want.

Mr. Chairman: About 45 minutes.

Mr. Sargent: Yesterday, in the Toronto Sun, Garth Turner ran a story on the Toronto Dominion Green Card and Green Machine. I talked to him again this morning. He said he has a number of cases of people using the machine, having balances and going back to find their money is all gone, things like that. Mr. Ashe has read it. It is shocking that this can happen. In the meantime, the bank demands that people put in the bank money they did not take out by the machine.

A bit of background is that each machine costs the bank $94,000 to install. You can see the money that is in the banking business when they can put a machine that costs $94,000 outside a bank. That shows the profit in one integral part of banking. They can put them in supermarkets and convenience stores. When they can spend $94,000, you can be sure there is a profit in banking.

What I am going to build up to is my concern that some way of attacking banks on taxation would be very dear to my heart and to a lot of people. In Ottawa today, Mr. Wilson put on a new pair of shoes.

Mr. Haggerty: I bet they have holes.

Mr. Sargent: They might have, but I think he will possibly come up with a good budget. A year ago, he promised they would provide "a new ball game on taxation, to revise an antiquated, unfair, confusing tax system, a total tax reform." You can check it out. He promised a new tax system a year and a half ago. The words are on record.

In Ontario, we have the same old ball game on taxation; we have done nothing new.

Mr. Taylor: Are you talking about Ontario?

Mr. Sargent: Yes. We have the chartered banks screwing the public. Every way they can do it, they are doing it, at every turn. The four major monuments on Bay Street and Yonge Street are shimmering gold monuments to the stupidity of the Canadian people and the people in Ontario. They are running the biggest crap game in the world. It is time we took a shot at them and made them return some of the money they are stealing from the people.

Mr. Chairman: Eugene Whelan once said we should not have gold on the windows of our skyscrapers when we do not have cornflakes in the bowls of our children.

Mr. Sargent: I recall that.

Mr. Sargent: They charge 70 cents for a deposit, 25 cents for a withdrawal and $12.50 for a cheque they bounce. In my area, they have been taking money out of a man's account and seizing it. He brought me affidavits to that effect from his lawyer. The money they took out of his account ruined him. I phoned the bank manager and told him that if that money was not back in his account in an hour, I would charge them with theft. The money was back in the account and the story got headlines in my riding.

That was one of the things that helped me get re-elected by the farmers. The banks will go to any length to screw the public, and we have a blank cheque in this country for the chartered banks. Having said that, I will say something on the subject.

Mr. Taylor: If you want a cancelled cheque back from the bank, it costs $12.

Mr. Sargent: There you go. They should be investigated. The horror stories about what the chartered banks have done to the farming industry in the province would make a great movie. They continue to pile up the greatest profits in history--$70-million bank failures, and we are paying for it. Where does the money go? I would like to get on with my subject, but I think the ultimate goal would be taxation of banks.

My brief is short. It is called VIT: A "Democratic" Approach to Taxation. VIT or valorem intangibles tax is a proposed tax and can be national or provincial. I am trying to set up a meeting in Florida, where it is well installed in Tallahassee. I was talking to them last night. It is a tax on intangibles. Corporations would be taxed on the value of their revenue-producing tangibles, such as corporate stocks, bonds and pension funds.

Valorem intangibles tax is an invaluable source of much-needed revenue. Right now in Ontario, we have $125 billion sitting in corporate pension plans. We saw the $80-million Dominion pension plan fund on the news a few weeks ago. A VIT of only one half of one per cent would produce $625 million worth of revenue in Ontario, thus providing a means of shifting the major burden of taxation to those who hold wealth in intangible forms.

VIT could be administered painlessly by integrating it with the declaration of an estimated income-withholding system of the internal revenue service. VIT could reduce tax inequities caused by the lack of uniformity in

property tax assessments with dividends and interest rates known; a national VIT would have an explicit and uniform rate.

VIT should mute the mobility-of-assets problem. Tangible personal property frequently migrates to low tax areas. Since the location of intangibles generally goes with the owner, the institution of a national VIT would mean that there would be no place to evade the tax within the country. VIT would have a growing base since the nation's wealth is increasingly held in intangible rather than tangible forms. A VIT might be even more expansive than a VAT, valorem added tax, which is chained to consumption.

1020

Incidentally, last year, Michael Wilson was threatening to go on a VAT or a transfer tax system. VIT would not upset any existing and significant tax base, whereas a national sales tax, a VAT, would evade traditional provincial and local means of collecting revenue. VIT could easily be piggybacked into the system instituted in 1962 by the federal government revenue service, requiring reports from each business paying dividends or interest of more than $10 per year to any person. Finally, VIT would be recognizable as a tax, as it would be computed and known by taxpayers, not buried in the price of the purchase, as is the case with VAT.

VIT may well prove to be an idea whose time has come here in Ontario, at least as a component of tax reform, and it may well find allies among those of the conservative camp who want to preserve the property tax and those of the liberal camp who want to promote progressive taxation. It would be a true tax based on the ability to pay.

I would be glad to kick the ball around on this for a minute.

Mr. Taylor: You are a source close to the Premier (Mr. Peterson), Mr. Sargent. What does the Premier say about all this?

Mr. Sargent: That is a fair question.

Mr. Chairman: That is a fair question, but I have Mr. Ashe first on my question sheet.

Mr. Taylor: He can ruminate on that one.

Mr. Ashe: He can ask that one later.

Mr. Sargent, for the record, to make it official, in your last sentence or two, your use of the words "conservative" and "liberal" are designed to be small-c and small-l.

Mr. Sargent: They are small-c and small-l.

Mr. Ashe: Okay. That is not my question.

Mr. Sheppard, what do you think? This is obviously another way to raise taxes; no doubt about that. I know your thinking is that you raise it here instead of some other places.

Unfortunately, it has been traditional--and I say this in a nonpolitical sense; it does not seem to matter what level of government and what party or what nonparty, if it is municipal, is in business--when they find a new way to

tax, first, they do not take away the old ways and, second, they do not reduce their deficit, they only find more ways to spend it, so you end up just compounding the problem. How would you institute something like this to try to make that not happen, keeping in mind that, historically, it nearly always does?

We have an excellent example right now. The Treasurer (Mr. Nixon) has an extra billion, practically, and he has already spent, what, 80 per cent of it?

Mr. Sargent: No comment on that.

Mr. Ashe: I said I would be nonpolitical.

Mr. Sargent: VAT is one of the most common forms of taxation in the world. It is now in place in 53 countries in Europe. It is taxation on different levels of production. We all understand VAT, do we not?

Mr. Ashe: It is a sales tax, but all along the system instead of only at the end.

Mr. Sargent: Right, and Mr. Wilson is thinking of bringing it into Canada. What I am concerned about is that it does not attack the fact that in Ontario, we have $125 billion in pension funds lying idle.

In Tallahassee, Florida, last week, they were telling me the VIT program is a very important part of their state revenue, generating $200 million in new dollars per year from taxing stocks, bonds, mutual funds--which I am concerned about--and bank deposits. How do they do that? They have a tax rate of a hundredth of one per cent. They found they had $250 billion that was not being taxed, so they taxed it, and a hundredth of $250 billion is $250 million.

They have a graded thing. A married couple has a $40,000 exemption in this taxation. Suppose they had $100,000 in the bank and they had a $40,000 exemption, they have $60,000 taxable, so they would pay a hundredth of one per cent or a thousandth of the $60,000. They would pay $60 in taxes. It is working beautifully down there and it is a new source of revenue, but I am happy about it. It gets at the bastards we want to get at, the banks.

Mr. Ashe: Explain how you would see it getting after the banks. I do not see it the way you have described it as getting after the banks. I see it getting after the people who use the services of the banks, the depositors. How does that get after the banks? There is a tax structure that could be altered that could get after the banks.

Mr. Sargent: It covers stocks, bonds, receivables, mortgages, mutual funds and bank balances.

Mr. Ashe: Yes, but that is not the banks.

Mr. Sargent: The banks are the the first targets. They have stocks and bonds.

Mr. Ashe: No, that is not the banks per se. The people who do all those facilities through the banks are the people who are going to pay, and that is fine. That is a different thing, but that does not get after the banks.

Mr. Ferraro: If your assets are under an administration fund, yes.

Mr. Ashe: The only way you can get at the banks is to have a

completely new approach to corporate tax structures, again the banks, the insurance companies and all those whose main operating asset, if you will, is money. But do not stick it to everybody else's money while they are handling it. It is their net return on their handling of that money in whatever manner it may be.

I appreciate the whole principle here. As a matter of fact, there is a lot to be said for it. As you said, more and more jurisdictions in the world are going this route, one way or the other, but I do not think it gets after what you perceive as the bad guys--the banks, the stockbrokers, etc., as such. As long as we can get away from the problem I enunciated before that traditionally governments seem to find a new source of revenue and they do not give up any others, they just spend more money, I think the principle is something worth looking at, but I do not think it gets after the banks.

I will pass. I know there are many other.

Mr. Sargent: You are probably right to a large degree, but I think this way we can circumvent or get around to adapt it to what we want to do, if there is a desire to do it. I read a long time ago that if you have been doing it this way for a long time, it is probably wrong.

I think we are doing a lot of things wrong when we have 53 countries in Europe using that and then we have progressive people in Boston, Massachusetts, studying this now. I think it would be meaningful for you and your very able committee to get on the road and go to visit Europe and then find out what the hell is going on there.

Mr. Ashe: Good idea.

Mr. Chairman: All 53 countries.

Mr. Ashe: This time of the year we will go south to Florida. In the spring or the fall we will go to Europe.

Mr. Sargent: Florida is the main place, Tallahassee.

Mr. Foulds: My kids got a trip there, but I did not.

Mr. Ashe: We will move away from Washington and go farther afield.

Mr. Chairman: We have a veritable explosion of questions. I do not know, Mr. Taylor, if you want to follow through. If not, I have Mr. Haggerty, Mr. Foulds, Mr. Partington and Mr. McFadden.

Mr. Taylor: The question has been asked. I was waiting for the answer. You had time enough to think about it.

Mr. Sargent: Say it again.

Mr. Taylor: The question I asked was in connection with your proposal. Now that you are close to the Premier, to the source of power, I wonder if you have discussed this with him and what kind of reception you had.

Mr. Sargent: I will be honest with you. I presented this to our caucus. We were down in Niagara, and I got a very blasé reception. They were busy. I thought I had hit a dud, but the more I see what is happening around the world, the more I think the time has come when a very intelligent group

like this should look at it. That is what your job might be, to have a good look at it.

1030

Mr. Haggerty: Following on the comments of Mr. Sargent this morning and the questions of Mr. Ashe, going through the financial institutions, and we have gone through them here in the past three or four months, brings out some value to the value-added tax with regard to stocks, mutual funds, trust companies and pension funds. I think it was when Brascan appeared before the committee that I directed a question to them. I looked at their financial statement and it indicated deferred taxes. You find out that under the tax concessions given to the investment dealers, they have paid no corporation taxes since 1972.

This is alarming when you go through the lists of family trusts of Edward and Peter Bronfman that deal with pension funds and trusts; Paul Desmarais and Family Trust and associates; Olympia and York Developments; Jackman and family. You can go down through the whole list; Conrad Black. They are in the area of investment of public money, you might say, taken from pension funds. With regard to what was said there and the questions directed to the chairman of Brascan, he said: "We do not pay any corporation taxes. We have not paid any since 1972." They have an escape clause.

Mr. Chairman: That was Crownx, I believe.

Mr. Haggerty: I do not know what it was. The point Mr. Sargent is getting at is that you have a certain few out there who can reap huge profits and pay little in taxes.

Mr. Ashe asked a question of Mr. Sargent, "If we go this route for further taxation, it just gives the government more money to spend." It probably would give it more money to spend but I am looking at the provincial debt, $30 billion or something of that nature. As suggested by Mr. Sargent, additional tax could apply directly to reducing the deficit, which would eventually mean a $10-million savings to every taxpayer, every day, you might say.

Interjection.

Mr. Haggerty: The debt had been accumulated over 42 years of Tory rule. You asked what the Premier and the Treasurer have done today to retire the debt on Suncor. They have been spending money that way to retire some of these debts, but here is something the committee should be taking a look at. Jokingly, somebody said we should go down to Florida. Maybe we should take a look at it down there. If there is an area of taxation that has been neglected by both the federal government and the provincial government, we should be looking at that source, instead of putting it on the backs of the wage earner. We know the federal budget will come down some time today. If we go back and look at the income tax--there is an ad valorem tax on personal income tax now in the province because it is based on percentage of income.

Mr. Chairman: In a way, yes.

Mr. Haggerty: If you go back and look at the change in the federal Income Tax Act applying to low wage earners, you will find that they have been carrying the load. They have reduced it to some degree but they have put it on

the backs of those earning $15,000 and still paying. People who never paid income tax before are paying it today. I suggest there is an area here that we should be looking at and advising the Treasurer to take a look at. There is a possibility that there is additional revenue.

Mr. Chairman: This is a way of getting the message through. Mr. Foulds, do you agree?

Mr. Foulds: I have a couple of questions.

Mr. Chairman: All right.

Mr. Foulds: I find myself agreeing with the principle you are enunciating, Mr. Sargent; that is, there appears to be an area of accumulation of wealth that is not legitimately taxed. It is a legitimate source of taxation.

I am not sure how the tax you have recommended to us would actually be applied to get at "the bastards that we want to get at." This may seem strange but I agree with George. The concern George raises is that it would be taxed against those who have investments great and small, so you would get some of the big guys but you would get some of the small investors too. I do not know how you get around that in administration terms.

Mr. Sargent: It would be graduated, would it not, Mr. Foulds?

Mr. Foulds: It could be. Is that one of the recommendations you are suggesting, that there be an exemption level and then a graduated tax?

Mr. Sargent: It is operational and very successful in the variations of it around the world. If we are not going to go to that, my main concern is that someone has to take a good hard look at the banking industry and what we are going to do about it. Are we going to sit by and let those guys keep on doing what they are doing?

Mr. Foulds: The other question I have has to do with the pension funds. Because there are more than banks that control pension funds, as you know, would it make sense to have a fairly hefty tax of say 10 per cent, which is quite hefty, on any withdrawals from pension funds that are approved by the pension commission?

Mr. Sargent: I do not know whether that would be popular.

Mr. Foulds: I do not think it would be popular, but it would certainly get you some legitimate revenue.

Mr. Sargent: In Toronto in the past year, we have watched the most flagrant moving around of billions of dollars in the Cadillac Fairview housing deals. You get $500 million laying here and around the whole marketplace and no one knows what the hell is going on. Is that money being taxed? I do not know. I know there is $125 billion in pension funds laying idle, not being taxed.

Mr. Chairman: That is in Canada.

Mr. Sargent: In Ontario alone.

Mr. Chairman: The article you have attached to your brief--

Mr. Sargent: That is old.

Mr. Chairman: How old is it? It seems to suggest that figure for Canada and a figure of $60 billion for Ontario.

Mr. Sargent: The current one released claims $125 billion in Ontario.

Mr. Foulds: I have always argued, and you know the socialist hordes have always argued, that pension plans belong to the workers, to the people, for their benefit. That is why I asked you the question about the taxation of pension plans. I am not quite sure how you administer that unless you administer it at the point at which the pension commission approves an employer withdrawing money from the fund, seeing as it has not paid taxes on it while it is being invested. It has been using it as a tax haven in effect. That is why I asked you if an appropriate point to tax would be when the withdrawal takes place from a pension plan.

Mr. Sargent: Maybe you could look at it.

Mr. Foulds: Yes; okay.

Mr. Partington: In your first paragraph, you talk about taxing intangibles, but then you say corporations would be taxed. Is your idea to tax corporations and not individuals?

Mr. Sargent: Corporations--right down the line. It is pretty wide.

Mr. Partington: If an individual had $100,000 in bonds, would he be subject to this tax as well?

Mr. Sargent: On the same basis of one-hundredth of one per cent that they are doing in Florida. He would have the exemption. If he were married, he would have a 60 per cent exemption.

Mr. Partington: Could that not be regressive to the extent that seniors, for example, who may be on fixed or low incomes but with substantial savings are already paying tax on dividends that accrue from those savings? Now they are going to have to pay a capital tax.

Mr. Sargent: You make a good point. I know what you are saying and I think we would have to tailor it to that effect for special groups such as that.

Mr. McFadden: I have a couple of questions concerning the concept. As I understand it, you are talking about putting this tax on every type of capital asset. Is that correct?

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Mr. Sargent: Right.

Mr. McFadden: It would not be ordinarily caught by, say, a property tax? We were talking about buildings. Are you going to have a VIT on them too?

Mr. Sargent: No, that is real estate.

Mr. McFadden: You consider they are covered by property tax?

Mr. Sargent: Yes. No real property would have a VIT on it.

Mr. McFadden: It would include only shares, any type of capital asset a corporation or an individual holds, correct? One of the questions I have relates to what was raised earlier, the savings account. One of the things is that somebody is paying income tax on the money he earns on his savings account. I cannot understand why we now would want to tax them as well on the capital since they are already paying money on the income. As a society, we are trying to encourage people to save.

Mr. Sargent: That is a hell of a valid point. As I mentioned when Jim and I were talking, a single person would have an exemption of 40 per cent.

Mr. McFadden: Forty per cent of what? The value?

Mr. Sargent: If you had $100,000 a year in a savings account, you would have an exemption of 40 per cent. On the $60,000 left over, you would be taxed one and a half per cent, one one-thousandth of that, so you would pay a $60 tax on the $60,000. You could eliminate that factor if you did not want to go that route, but the main thing is to tax the corporate field--stocks, bonds, receivables, mortgages and pension funds--not being taxed now.

I cannot even keep my own bank book straight. That is how good I am. I probably will not be back here next year. I will be out of this place but I would hate myself for not getting this off my chest. I hate the banking system. They are screwing the people of this country. They have ruined our farming community. They lie and steal. When you catch them with their pants down, they cover up. We let them go on. I do not make any bones about it.

I think this would be a good point for the committee to have a talk to Garth Turner of the Sun about this thing going on now. He said thousands of people have been affected. Regarding these Green Machines, he said anyone can tap those accounts by a magnetic encoder. You can take any credit card you want and a magnetic encoder and tap any machine you want. He says he has countless cases beyond what was in the paper yesterday. The banks are making the people put money back in. Even though they did not take it out, the banks say, "You put that money back into the account." The guy says, "I did not take it out," but he has to put it back into the account, even though he did not have anything to do with the money.

Your committee could have a lot of muscle and say: "What the hell is going on in this country? How can they get away with that stuff?" They are calling people cheats and thieves and stuff; legitimate, good citizens. One guy has $50,000 and a $150,000 house. They call him a thief because money was deducted from his card. He did not take it out.

Mr. Chairman: Are you saying the bank took it out without any explanation at all?

Mr. Sargent: Somebody got into the system. He has many cases now.

Mr. McFadden: Can I ask you a question about what we are getting at here? You have suggested your major thrust is to get at the banks. You feel there has been short practice on their part over the years. What you have proposed, though, does not so much get at the banks as it gets at pension funds and a whole bunch of other people. I am just curious to know the underlying thing you are getting at. I know you are trying to nail the banks a bit and get them to pay what you feel is their fair share. Are we trying here to generate extra revenue?

Mr. Sargent: Revenue is the key.

Mr. McFadden: Are you looking at VITs as the way to generate extra revenue? Is that the underlying goal here or is the underlying goal to get at the financial institutions?

Mr. Sargent: That is a byproduct.

Mr. McFadden: It is a little bit of both. Is that what you are saying?

Mr. Sargent: Exactly.

Mr. McFadden: The final item was the pension funds. Before and since I was elected, I have had a lot of dealings with elderly people who are in really serious trouble today because they have no pensions. Over the years, people have not been pension-oriented as we have been over the last 10 or 15 years with registered retirement savings plans, company plans, portability now and so on. We are currently reviewing all our pension legislation to encourage people to be in pensions but also to protect their rights. Do you feel we should be applying this to pension funds as well, in view of the fact that there is a long-term benefit to pension funds being strong and liquid to benefit the various people who will be the ultimate beneficiaries of these pension funds?

I can understand what you are saying in terms of the grants. I just query attacks on pension funds since what we are doing there is having people save for their old age when they will be really vulnerable. I thought a major objective of the Legislature--really social planning--was to guarantee people down the line a good or at least a reasonable living when they get old. I wonder about the value of taxing away hundreds of millions of dollars from pension funds.

Mr. Sargent: You make a good point. That is very valid and I do not know how I would overcome it. The fact is there must be some reason for it. Are the pension funds being taxed now?

Mr. McFadden: I am not sure.

Mr. Sargent: I do not think they are.

Mr. McFadden: I do not think pensions are. The administrators would be taxed on their income earned from the pension funds.

Mr. Ferraro: They would charge an administration fee.

Mr. Ashe: Your benefits at the end are taxable.

Mr. McFadden: The recipient gets taxed when he draws out the money but that is when he is retired. People ultimately get taxed on money they take out of pension funds.

Mr. Sargent: Those questions are valid, but have a hard look at this idle money that is lying around and that is being kicked around. We could nail it and make revenue for the province. That is what we are looking for.

Mr. Ferraro: Mr. Ashe and I were talking here and it is unique to have somebody come here and talk about producing revenue; nine times out of 10 people want blank cheques. We know how to spend the damned money but we do not necessarily know how to increase the revenue. I can empathize with what you are saying.

Mr. Ashe: You worked for a bank.

Mr. Ferraro: No, I worked for a trust company.

As you know, trust companies and credit unions are Ontario-legislated and banks are federally legislated. It is a novel approach to have a tax on an intangible from the standpoint of taxing the banks that are the administrators. If you did that, I suspect two things would happen. Banks and financial institutions would probably say, "We are not going to have that service," although I do not think that is likely. The more probable thing is that if you tax them on administering or holding it, they are going to pass it on to the individual who has the money on deposit in one shape or form.

Incidentally, I think you are right and what the banks do as a matter of power is wrong. My pet peeve is the analogy of the federal income tax. If they have ever gone after you for income tax then you are guilty, you are in Mexico, you are imprisoned, you have to do all this damned work that drives you and everybody nuts--

Mr. Sargent: That is what I told you.

Mr. Ferraro: --and you go all the way to court and if you are innocent bugger-all happens, to be blunt. There should be compensation.

My question to you is specifically this: Are you not saying that the regulations governing financial institutions--the fact that the bank can go in, take money out and tell you to put it in, even if you did not take it out--is the real problem you are after, more than anything else?

Mr. Sargent: Among many things.

Mr. Ferraro: By and large, the regulations are totally inefficient.

Mr. Sargent: They are a law unto themselves. Somebody should ride herd on the bastards. I mean it.

Mr. Taylor: Is that unparliamentary?

Mr. Sargent: It is in the dictionary.

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Mr. Chairman: Mr. Sargent, I echo Mr. Ferraro's comments that it is a pleasure to have someone come in here with a proposal that is innovative and attempts to see how we can improve our revenues as opposed to spending. Myself and the whole committee also appreciate the time and the thought you have put into this. I trust this committee has been less blasé than the Liberal caucus. Finally, I think I echo the views of everyone in the committee that we hope you are around with us for many years to come.

Mr. Sargent: I will be talking to Tallahassee, if you want to arrange a trip to Tallahassee.

Mr. Ashe: I will carry your bags.

Mr. Sargent: I cannot go. You guys can go.

Mr. Chairman: We appreciate that very much.

IBM CANADA LTD.

Mr. Chairman: The next group that has a presentation for us is IBM Canada Ltd. which has given us a written brief. That written brief is exhibit 42. It was distributed on February 5 and a copy is being distributed to you again. It has been précised by Mr. Bond on page 15 of the summary of prebudget submissions.

We have with us Grant Murray, the vice-president of corporate relations and Jim Hutchison, director of taxes. Gentlemen, as you know, copies of your brief are being distributed again. Perhaps you could quickly lead us through it. Then we would like to ask you some questions.

Mr. Murray: Thank you, Mr. Chairman. On behalf of IBM Canada, I would like to thank you for the opportunity to appear this morning. In January, we sent not only our submission with respect to Ontario, but we also sent a tax paper that we had submitted to Mr. Wilson in the federal government.

Mr. Chairman: Yes.

Mr. Murray: It is not my intention to go over these two submissions in detail. Rather, I would like to take a few minutes to summarize the key points that were made in both submissions. I have brought extra copies of these opening comments which we would be pleased to make available to the committee.

By way of introduction though, I would like to tell you a little bit about IBM Canada's presence in Ontario. IBM Canada has been a member of the Ontario business and manufacturing community since 1917. Of the more than 12,000 Canadians employed by IBM Canada, over 8,500 of them are located in Ontario. We have facilities in 23 Ontario communities, including our headquarters in Markham. We have a high technology manufacturing plant and a large laboratory in Don Mills at the intersection of Don Mills Road and Eglinton.

As well, IBM Canada is a major taxpayer in Ontario. In 1985, we remitted $123 million in taxes to the Ontario Treasury. Included in that amount was $65 million in corporate income taxes, and that represents about 2.5 per cent of all the corporate income taxes collected by the province in that year. So we are certainly not one of those corporations that has somehow managed to escape a liability to pay our fair share of corporate income taxes.

Also in that year, our payroll and benefits in Ontario totalled $431 million, and we spent another $379 million with our Ontario suppliers. Of course, the Ontario Treasury benefits from these expenditures as well. So we do have a direct interest in the work of this committee and we do again welcome this opportunity.

With that background, I would now like to address the points we made in our submissions.

First of all, we are very concerned about the continued growth of the provincial budgetary deficit. In our view, budgetary deficits are justifiable in times of recession when governments have to maintain services despite revenue shortfalls. On the other hand, we believe it is critical that governments discipline themselves to reduce deficits when economic fortunes improve rather than increasing government expenditures.

Excluding extraordinary adjustments, expenditures in Ontario have risen

by almost 20 per cent over the past two years. The government's May 1986 budget papers show that the interest on public debt since the 1982-83 fiscal year has jumped from 9.2 per cent to 11.4 per cent of total expenditures. If this increase is left unchecked, it is our view that the government will have less and less flexibility over its expenditures.

Indeed, we would hope that the Ontario government does not get itself in the position of the federal government where currently 33 cents on every revenue dollar received by the federal government is used to service the debt. To put that another way, 25 per cent of all federal government expenditures are used to service the debt. We think that is an intolerable position for a government to find itself in.

As well, based on the latest budgetary estimates for 1986-87, revenues in Ontario are expected to exceed the budget forecast by $919 million, but only $195 million of this excess will be applied to deficit reduction. We recognize and accept the fact that the Ontario government is under pressure to increase funding of many programs. Certainly, we would agree that some programs could benefit from extra funding. However, if this is the case, we believe that the government should reorder its spending priorities and decrease its expenditures in other areas in order to allow for additional funding in some of those needed areas.

Given that Ontario is enjoying some measure of economic prosperity, we feel that the government should reduce the provincial deficit, and we are very concerned that instead, expenditures are rising to these new revenues.

Our next concern relates to Ontario's royalty disallowance which, admittedly, is a rather technical tax issue but is one of major importance to our company. You may be aware that the Corporations Tax Act disallows the deduction of a portion of any royalty or management fee which is paid to a related nonresident as a business expense. When this was introduced in 1973, there was a feeling that some corporate taxpayers were using such payments as a means of remitting profits earned in Ontario without payment of their fair share of Ontario tax on those moneys. Our company has objected to this legislation since its inception, and we continue to do so because of its arbitrary and discriminatory nature.

The royalty disallowance is a very narrowly-based tax. As we understand it, very few corporations are affected by this provision. Indeed, these kinds of expenditures paid by a company to a related company are often recovered through intercompany transfer prices and hence, are not subject to this tax at all, but nevertheless, the money is still crossing the border under a different form.

The first point I want to make is that there is no debate that our royalty payments are legitimate business expenses and do not in any fashion whatsoever represent a transfer of profits out of the country. Our royalty payments are regularly examined by both Ontario and federal income tax auditors and have always been held to be legitimate and justifiable business expenses without exception.

The second point, and I think this is very important to the Ontario economy, is that much of the royalty paid by IBM Canada to its parent is returned to Ontario to fund our research and development activities in this province. The way it works is as follows: We pay a royalty to our parent corporation based on customer revenues we earn. The total worldwide royalty, that is, the royalty that the corporation receives from several of its

subsidiaries around the world, pays for, among other things, IBM's worldwide research and development programs. The research and development funding is centrally controlled for management reasons, but the money is spent in research and development centres around the world, including here in Don Mills where our software development lab employs over 1,200 people. Indeed, our Canadian lab, located here in Toronto, is the third-largest private sector lab in Canada, so it is a very major research facility in the Canadian context.

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The royalty paid in 1986 attributable to our business activities in Ontario was approximately $126 million. However, our Toronto lab received $105 million in 1986 from the central fund. As a result, over 80 per cent of the royalty attributable to our Ontario operations was returned to Ontario to fund research and development in this province. Despite this major economic benefit accruing to the province, in 1986, due to this law, Ontario disallowed about $41 million of these royalties, which resulted in additional taxes of $6 million.

We obviously feel that this is a retrogressive tax and that this legislation should be repealed immediately. In our case, it is tending to work against our best interests in trying to promote additional research and development in Ontario. It is very difficult to convince your parent company to fund more activity in the province when the government is taking these kinds of discriminatory and arbitrary tax bites out of you. We cannot even argue the legitimacy of the activity; there is no opportunity to argue that this is a reasonable business expense. We are advocating its repeal immediately.

Very quickly, I would like to discuss our submission to the federal government on tax reform. As the document states, we fully support the principle of reform and view it is as a significant opportunity to achieve a simpler, more equitable and balanced tax structure. In the context of that, we have made four key recommendations to the federal Minister of Finance in our paper.

First, IBM Canada concurs with the federal government's stated intention to lower rates of tax and broaden the tax base by reducing or eliminating a lot of the deductions and allowances presently available, particularly what I would describe as the special-interest deductions and allowances, which are rife in the current legislation.

Second, we emphasize in our brief to the federal government that the provincial governments indeed have a very significant role in the whole Canadian tax system. We have strongly recommended to them they they must ensure full provincial participation in the tax reform process. Equally, we strongly recommend to Ontario and to the other provinces that the province should take a leadership role by also actively participating in the reform process. We believe there are significant benefits to be obtained by both taxpayers and governments if the federal and provincial tax systems are reformed and, more important, synchronized.

Third, if we as a country and as a province are to remain internationally competitive, Canadian tax reform at all levels must recognize the economic impact of reforms already implemented in other countries. We cannot afford to have a tax system in this country which makes the private sector uncompetitive, in that context at least.

Finally, with regard to sales tax, we fully support the need to reform

the federal sales tax. We think it is a bad, unworkable and discriminatory tax; indeed, it is overdue for reform. However, in our recommendations to the federal government, we recommend that a fully integrated federal-provincial value added tax be implemented to replace existing federal and provincial sales taxes. We believe such a system would not only identify the tax burden but would also be more equitable, simpler and easier to administer, not just for governments, but for the taxpayers, who are already burdened with a lot of paperwork as it is. We certainly encourage the Ontario government and your committee to consider this approach.

That does conclude my formal remarks. Once again, I would like to thank you for the opportunity to address you. At this time, we are more than willing to answer any questions from the committee.

Mr. Ashe: Having read through your brief, I appreciate that undoubtedly your main point is--and I concur with it--that any tax reform should not be done individually. The two levels of government should work together. That would be most useful for government and the taxpayer. That seems to be the main theme which has gone to both jurisdictions and which I fully support.

Can you clarify a little your position on that? In your context, do you see the VAT tax as an added tax all the way along the line or, so to speak, only once at the end, really as a sales tax? I appreciate it is somewhat the same thing anyway, except that a sales tax is normally only at the very end, when the consumer buys it and value added can be anywhere along the line where a value is added. How do you see it in your context?

Mr. Hutchison: The system we are talking about is called the credit invoice value added system. What that means is that every time a corporation or an individual bills something out, there is tax added to that bill. If the recipient is the end user, then there is no refund of tax. If, on the other hand, the recipient is also in a business environment, he would recover that tax against the billings he would make to his customers. They add on the tax to their customers, net from that the taxes they paid to their suppliers and remit the balance to government, which is essentially the European system.

Mr. Murray: I just might add at the same time that we feel that with such a tax there should be very few exemptions from it. It should be very broadly based, and we should avoid the example of some countries in Europe which have made so many exceptions that it has become very unworkable.

Mr. Ashe: Unfortunately, this seems to be the tradition with any form of tax. You start out wanting it pure, but the exemptions have a tendency to make their case over time. Ultimately, you bastardize the whole system. There is no doubt about that.

Mr. Hutchison: There certainly are ways of giving relief where relief is warranted, but perhaps through another system. For example, the federal government has made some reference to income tax credits to alleviate the negative impact of a reformed federal sales tax system. That can certainly be done.

Mr. Ashe: You indicated that any tax system should allow an operation to remain competitive or it ultimately, one way or another, goes down the tubes. I hope that is obviously paramount, although some people forget that, in the context of what we have to do as a nation and as a province, particularly where exports are so important, if we cannot remain competitive, we are going to lose the business.

Can you explain to me briefly whether, for example, you operate as General Motors does when it is coming up with a new product, a new transmission or whatever? The different parts of GM quote on that. GM in Oshawa might quote, competing with Lansing, etc. Does IBM work in the same way, IBM Canada competing with IBM Timbuctoo? I do not need details; I am just trying to understand IBM.

Mr. Murray: We have two manufacturing facilities in Canada, the one I referred to in Toronto and another in Bromont, Quebec. Both of those manufacturing operations are engaged in high-technology type of work. IBM rationalizes its manufacturing on a worldwide scale; therefore these plants specialize in certain areas.

Nevertheless, when we are seeking additional mission for one of our Canadian plants, or additional work load, if that is the case, we really do bid competitively with sister clients. We have to win that business on the basis of our costs, quality, ability to meet delivery targets and the like.

I am pleased to say our two Canadian plants rank among the very best of the IBM plants around the world in their reputations for low cost and high quality. We can compete, and have competed regularly, with any of our sister plants in the United States and other countries. However, what we are concerned about is not necessarily that the tax system be a mirror image of somebody else's tax system, because that is not in the cards. We want the politicians and the bureaucrats to look at the total tax burden that the system is driving on a business activity and make sure that we have not taxed ourselves out of the market, so to speak, when it comes to this kind of competitive bidding.

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Mr. Ashe: One last question, if I may. You talked about the central fund of research and development funds, for example. If IBM gets an allocation of $100 million from that fund this year--IBM Canada--does IBM Canada not write off that R and D to its corporate tax structure in Canada?

Mr. Murray: You take that.

Mr. Hutchison: Yes. The funding that we would receive would effectively offset--the funding is income, if you like, offset by the expenditures.

Mr. Murray: It is another form of revenue to us, just as our export shipments are paid for by our sister plants. They become revenue to IBM Canada, which forms part of our tax base in Canada.

Mr. Ashe: Yes, but you are still able to write off--

Mr. Murray: Yes.

Mr. Ashe: It seems to me that some of this would affect you negatively. I guess what I am saying is that I am not quite sure your case for the Ontario royalty disallowance section is too valid, because you are saying, let us write off twice that part that you are ultimately going to spend back in Canada. That is why I asked you the other question first, and you acknowledge that you are able to write it off, which you should be able to; I am not disputing that. The only net tax you are paying, then, is the part you did not get back, because you can write the other off.

Mr. Hutchison: Let me try and come back through that one. We pay a royalty, which is a business expense, to IBM Canada. Normally, businesses' expenses are deductible against revenues. In the case of a royalty payment, the Ontario Corporations Act requires that we add back five 15 and a halfs--to use the technical term--of any amount we pay to a nonresident. So the issue is basically that we have a legitimate business expense that we are not allowed by law to deduct against revenues.

Mr. Ferraro: Can I have a supplementary on that?

Mr. Chairman: Let us have the answer first.

Mr. Hutchison: The point we are making in terms of the royalty is that the money is coming back into Ontario and it is spent in Ontario.

Mr. Ashe: But when you end up, your expenses are deducted.

Mr. Hutchison: We are not allowed to deduct roughly one third of that royalty. That is a valid business expense. It is examined in detail by the Ontario and the federal income tax auditors, and they have said--

Mr. Ashe: So your case is only on the part that you cannot deduct.

Mr. Hutchison: That is correct.

Mr. Ashe: I think you used your figure that you got 80 per cent of it back, so your complaint is about the 20 per cent.

Mr. Hutchison: The complaint is of the $126 millon, $41 million is not allowed to be deducted; so I can only deduct, as a business expense, $80 million of $120 million. On the other hand--

Mr. Ashe: I got the impression that the point you were trying to make is you wanted the $106 million and then the $80 million the second time. So you are only worried about the difference.

Mr. Hutchison: That is correct. It is the royalty disallowance that is the key. We were just making the point that the money does come back into Ontario and is spent here.

Mr. Murray: Just one other point of clarification: When the corporation funds our lab--the $105 million that I am talking about--part of that payment includes a 10 per cent service charge that we retain as our profit margin. For every dollar that comes in to fund our research, the corporation is paying us 10 cents, so $1.10. There is taxable revenue coming in on that. It is not all deducted as a business expense, because that is a profit centre. So we are bringing in more tax dollars when we bring in these funds for research.

Mr. Hutchison: Just the point again on deductibility: I have $110 of revenue for every $100 of expense, but it is the royalty disallowance one that we really feel should be repealed.

Mr. Chairman: Mr. Ferraro, you have a supplementary.

Mr. Ferraro: Yes, I have a supplementary. I will just preface it by saying that I am not necessarily arguing that that particular Ontario Corporations Act is the right legislation. If my understanding is correct, it

is a tax on a profit made in this country--you call it a business expense--that otherwise would leave this country without tax being paid. I think if you make a buck in this country, you should pay tax, like everybody else. Maybe you want to deal with that.

Really, you begged the question on page 5. If, in essence, you feel that from your point of view it is discriminatory and arbitrary, does not make any sense, you are getting ripped off and all the rest of it--maybe I should not use those words. On page 5 you say, "These kinds of expenses are often recovered through intercompany transfer prices and hence are not subject to this tax." It raises the question, why the hell does IBM not have an intercompany transfer price? Maybe you want to deal with both of those.

Mr. Murray: Let me answer that. This royalty arrangement that I referred to applies worldwide, with one or two minor exceptions in Latin America. It is an arrangement that has been in place for decades. It has been scrubbed, examined and approved by all the taxing authorities in all the countries around the world. As well, it has an advantage for IBM Canada in that we do not pay this payment until we have earned the revenue, whereas if it is incorporated in the goods coming across the border at the wholesale level of trade, you pay this expense up front.

Mr. Ferraro: If you do not make a profit, you cannot pay it.

Mr. Murray: That is right. We are quite content to have this arrangement, because it means we do not pay it until we have earned the money and the profit.

Mr. Ferraro: Yes, but the issue is after you make the profit.

Mr. Murray: The corporation has been very reluctant to disturb this arrangement, because as I say, it has found such acceptance. To change it would potentially result in a lot more debates with revenue officials in other countries and explanations about why we are making a change. It is the form of payment rather than the substance of the payment that is catching us. That is what we are having trouble with, the concept of why it should be disallowed and something else should not.

Mr. Ferraro: If you are going to save a few million bucks, I think you guys should look at changes.

Mr. Hutchison: I would also like to point out that the transfer prices we have are lower because they do not include any research and development expense of the product; those are funded through royalty. Research and development is clearly a part of product cost; ergo, I would submit that it is a legitimate business expense as opposed to additional profit.

Mr. Chairman: Does that exhaust your own question as well, Mr. Ferraro?

Mr. Ferraro: That will do for now.

Mr. Chairman: Do you want to be stricken from the question list?

Mr. Ferraro: No, I have another question.

Mr. Chairman: All right. Then I have Mr. Epp, Mr. McFadden, Mr. Ferraro, Mr. Morin-Strom and Mr. Foulds, and we have 15 minutes.

Mr. Epp: Mr. Murray, you indicated earlier that with regard to broadening the tax base in Canada, you would get rid of the special deductions that are there now. Which ones are you referring to? Would you be more specific, please?

Mr. Murray: I will let Mr. Hutchison answer. There are a whole number of them. Maybe you had better answer the question the other way, in terms of what we can retain.

Mr. Hutchison: Fundamentally, we do not have a wish list of things that we believe should be excluded. In principle, though, when we look at the tax system, we believe the only incentives that should be in there are broad-based incentives specifically targeted to achieve an economic activity. A couple of examples we have in our submission to the federal government are the manufacturing incentives, which are clearly targeted to encourage and promote manufacture in Canada, and R and D incentives, which again are to promote research and development activity in Canada. These are available to all taxpayers, provided they carry out the fundamental economic activity that is being looked for.

We believe those types of incentives are quite legitimate and should be part of a broad-based tax system. There are many others beyond that, as I am sure you are aware, which are fairly narrowly focused, and we believe it is not appropriate to have those in the system. It complicates it, and it makes it very hard to appreciate what is happening in the total economy.

Mr. Murray: And they erode the tax base.

Mr. Epp: You are not suggesting, for instance, that the charitable institutions or the churches, etc., would be added to the tax base and start--

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Mr. Murray: Make them taxable?

Mr. Epp: Yes.

Mr. Murray: No.

Mr. Epp: You have obviously done an impact study on how the value added tax will impact on IBM. Will you be paying more or less tax? I cannot see your recommending something whereby you will be paying more taxes.

Mr. Ferraro: They said they would (inaudible) $6 million.

Mr. Murray: No, he is talking about--

Mr. Epp: Value added tax.

Mr. Murray: I think the answer to your question is that in the papers dealing with tax reform, the federal government has stated that some of these measures should be revenue neutral. Whether we will be paying more or less tax than we do currently for federal sales tax therefore depends on the rate they choose to introduce.

Mr. Epp: But you and I know the government would not enter into tax reform unless it found another way of raising additional money for the Treasury, which it badly needs, having a deficit of $35 billion--I guess closer to $30 billion. I am just out $5 billion.

Mr. Hutchison: Frankly, we can go through all kinds of calculations and analysis but cannot really determine what a value added tax would do to us, or indeed our customers, versus our current federal sales tax and provincial retail sales tax.

Mr. Epp: But you recommend it irrespective, because it is a form of reform?

Mr. Hutchison: I believe it is, in principle, a much fairer tax, a much more equitable base, clearly visible to the consumer, who is ultimately paying that tax, and much easier to administer, whereas today I have a federal sales tax plus multiple retail sales taxes to administer. I think governments and taxpayers would find it much easier to deal with.

Mr. Epp: Provided, of course, that they do not bastardize the tax by putting in all kinds of exceptions?

Mr. Hutchison: That is correct. The whole concept of a value added tax system is its broad base and neutral impact through the whole economy.

Mr. Epp: On a lighter note, does IBM still stand for "I've Been Moved"?

Mr. Hutchison: Not as much any more.

Mr. McFadden: I want to compliment you on providing us with your figures on taxes paid. Mr. Haggerty was referring to witnesses who appeared here a while ago and basically admitted they had not paid taxes for a number of years. According to your figure, the amount of corporate tax you are paying here is $123 million. Is that all corporate tax?

Mr. Hutchison: No. Of that $123 million, Ontario corporate tax was $65 million.

Interjection: Corporate income tax.

Mr. Hutchison: Corporate income tax.

Mr. McFadden: You have paid enough corporate tax and other taxes to finance one or two of our smaller ministries in the Ontario government. It was good of you to do that.

Mr. Murray: We are trying to help the education system as well. We have an education budget of over $55 million each year, which is equal to running a small university.

Mr. McFadden: That is in your company?

Mr. Murray: Yes.

Mr. Taylor: There is a good citizenship award coming up.

Mr. McFadden: Our education budget is considerably larger; nevertheless, that is a burden the government is probably not having to undertake, at least part of it.

I think the points you make on the provincial government deficit, tax reform, the need to harmonize and so on are very well done and well taken. The

one thing I am curious about, though, is this royalty disallowance. I am wondering if one of the techniques to deal with your company situation would be to allow some form of special deduction or provision for funds returned to the country for research and development. Clearly, and you have referred to the fact that originally the rationale for this was to catch companies exporting profits tax free.

I am wondering if we could not fine-tune this tax perhaps to deal with the kind of situation your company or other companies have. What Ontario is trying to do, and we have been talking about this for years, is to encourage research and development, high-technology development, all the spinoffs this causes. We are not anxious, though, to see the exporting of money necessarily to avoid corporate tax.

Do you think it would be possible to develop a provision in the law that would allow a relationship where, if a royalty is paid, the company in turn ties it in by reinvestment in research and development in the company? You could get credit for that against the tax payable on the royalty.

Mr. Murray: I suppose that is possible. It adds another level of complexity in the tax system, which we are advocating we get rid of. Your committee may be in a position to get some information. We have some reason to believe there are only maybe three or four companies in the province that are affected by this provision. It is not widespread in the sense of affecting a lot of companies. We have reason to believe that, of the few affected, probably we are paying 80 per cent of the tax collected from this particular section. We have trouble understanding why it stays on the books. It really is so narrowly based and affects very few people. That is our understanding.

Mr. McFadden: What other companies typically do you know offhand that are now being caught by this? Is it a similar industry?

Mr. Hutchison: The only one I know of is Kodak. I know of no others, although I accept that there are probably some others. Certainly when I discuss it with Treasury officials, they acknowledge it as a narrow tax and there are very few taxpayers.

Mr. Taylor: Has the evil disappeared that it was to address? Will the evil return if it is eliminated?

Mr. Murray: In our case, the evil was never there. I do not think it caught a lot of people.

Mr. Taylor: In general terms, it is general legislation. Mr. McFadden has suggested there may be a way to eliminate the anomaly that you happen to be, without eliminating the general application of the legislation, as I understand his question.

Mr. McFadden: Yeah, that is what I am trying to get at. It is an unusual position you are in.

Mr. Hutchison: It is hard, quite frankly, to get a good handle on that. There was a perceived evil at the time. Was it real? We do not know. I certainly was not privy to figures available to Treasury officials when they made that conclusion.

Mr. Murray: There is a first checkpoint in the system. If people are trying to move profits out improperly, then that would be challenged under a

general tax audit, that these were not justifiable business expenses in the first place. A lot of it gets screened when the auditors come in and challenge payment.

Mr. Chairman: Does that always get caught?

Mr. Murray: Obviously, it depends on the competence of the auditors, but they are very shrewd when it comes to these matters.

Mr. Hutchison: Certainly both federal and Ontario auditors will always look at payments offshore.

Mr. Murray: Like royalties. That is our predicament. Every year both tax jurisdictions have examined this carefully and have concluded each and every time that these are legitimate business expenses. Then we get caught by this after that determination has been made.

Mr. McFadden: I am wondering, Mr. Chairman, if what we might do to clarify this is perhaps to have Mr. Bond check with the Ministry of Revenue and let us find out what the background is on this tax, what it was intended to do and what their attitude is on it. It seems like a very specific and quite a narrow problem. Maybe it is one of those things that could be cleaned up.

It would be interesting to find out what it was intended to do, and what Revenue's current attitudes are on this. An interesting point has been made here, and maybe it is worth while just to find out what the background is from the government's point of view and why Revenue has got this tax on here, what dangers there are back and forth and what we might be able to do if the committee should decide to do anything or recommend anything.

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Mr. Chairman: Yes, we will do that. One of the positive aspects is that it gets us $6 million that we would not otherwise have.

Mr. McFadden: Yes, that is the problem here.

Mr. Murray: But we may get more research and development.

Mr. Chairman: I have two hospitals in my riding that could spend $5.5 million of that right away with just current expenses.

Mr. Morin-Strom: I have a question relating to some of the overall gross figures you have presented to us in terms of your activities in the province in 1985. We have heard that $123 million in taxes has come to the province. In terms of payroll and benefits, we have a total of $431 million and there is another $379 million of spending with Ontario suppliers. It would appear that in your costs of your product, you are spending just over $800 million in Ontario. However, I also note on your previous document that the total Ontario revenues in 1985 were just over $2 billion--

Mr. Murray: I wish we were that profitable.

Mr. Morin-Strom: --which to me implies that you have about a 40 per cent Ontario content in your product. Given the disproportionate amount of the employment that is in Ontario compared to Canada as a total, I would hazard a guess that your Canadian content is at an even lower percentage than that.

What do you think we could do to increase the level of Ontario content in IBM's operations in Canada?

Mr. Murray: I will let Mr. Hutchison answer part of that, but the first point I would like to make is that we have a lot of other expenses in Ontario. We have rent, heat, power and travel. These are only a few components of total cost. We also have investment in plant and equipment.

Mr. Morin-Strom: You mean those are not included in the spending with Ontario suppliers?

Mr. Murray: No. When we buy components or pencils or desks or those kinds of things, we buy those locally to the extent we can to support the small business community in Ontario, but those two items are only a part of our total cost base expended in the province.

Mr. Morin-Strom: How would we get a better idea of how much revenue you are taking in from the province versus how much you are spending within the province or within the total Canadian context if that is more relevant?

Mr. Murray: You have to divide it up into two pieces because we have manufacturing operations. That is where you measure Canadian content as a fraction of production cost. A lot of the money we spend in Ontario, for instance, on payroll, is marketing, service people, technical experts and clerks. Those people are all part of the payroll. I guess the Canadian content in our Don Mills plant is about 80 per cent; it is more than 75 per cent. I do not have the exact number with me.

Mr. Morin-Strom: I think of the auto pact content definition, which is not based on how much content there is in those plants but is related to the total sales revenues.

Mr. Hutchison: Let me just give you another number. Within that $2 billion of Ontario revenue, there is fairly close to $800 million of exports from our Don Mills plant.

Mr. Morin-Strom: How much is imported?

Mr. Hutchison: For the interior I do not have the number. I cannot tell you. You are comparing a fairly local and narrow base. Our customer revenue in Ontario is $1.2 billion and we spend a large amount; as you alluded, there is $800 million. There is another almost $100 million of taxes in Ontario. So we spend almost $900 million on these items alone in Ontario.

Mr. Morin-Strom: Okay. Let us focus on one of these items: research and development. We have your figure here on total Canadian research and development, worth $105 million. Is that Canadian research and development?

Mr. Murray: Pretty well, because it is all in the one lab in Ontario.

Mr. Morin-Strom: What is IBM's research and development budget in the United States?

Mr. Hutchison: I have no idea.

Mr. Morin-Strom: Oh, come on.

Mr. Murray: It is about $5 billion. I do not have the up-to-date figure.

Mr. Morin-Strom: The telecommunications area is one where Canada has had a very heavy level of research and development and I wonder why we have not had similar levels of R and D in the computer and software areas. If you look at the telecommunications area, I suspect the Bell family's R and D budget is roughly in the same order of magnitude as IBM's in the US.

Mr. Murray: No, it is a lot less.

Mr. Morin-Strom: Lower or higher?

Mr. Hutchison: Bell in the US?

Mr. Murray: No, Bell-Northern in Canada.

Mr. Morin-Strom: No, in the United States.

Mr. Murray: I thought you said Canadian Bell-Northern.

Mr. Morin-Strom: No, AT&T versus IBM in the United States.

Mr. Murray: I cannot even speculate.

Mr. Morin-Strom: Certainly in Canada, Northern Telecom is spending close to $500 million in R and D.

Mr. Murray: Yes, but Northern Telecom has moved a lot of its expansion in R and D into the United States. It is not growing. It is starting to put a lot of its research and development dollars in the US, which is of great concern to our Canadian government.

Mr. Morin-Strom: What can we do to encourage IBM to spend a more proportionate share of its research and development dollars in Canada?

Mr. Haggerty: Have a larger market.

Mr. Murray: There are obviously several initiatives one can throw off very quickly. We have talked about one: making sure the tax system makes it attractive to do that kind of activity in Canada. The R and D incentives are of some significance in encouraging companies to do research in Canada. One can conceive of other government measures that would encourage it.

The problem is that you cannot build a house of cards for anything. You cannot expand unless you are in a position to build something that has a good business justification and will continue over time. We have seen example after example where the government has thrown dollars at companies that should not have been in existence. The government has propped them up for years and then the moment the day comes and they have to pull the rug out, those companies do not survive. I am always nervous when people ask me how we can artificially, almost, expand research and development.

Mr. Morin-Strom: Let me throw out one idea, rather than direct assistance to a corporation or whatever. Is there a problem with our educational institutions? Does IBM see that they are not sufficiently complementary to the kind of research and development you might be able to do here, which you find perhaps is more in tune with the high-tech education going on in the US in particular major centres?

Mr. Murray: If you want my opinion of the real problem, it is an attitude problem. We do not have the right attitude to some of this kind of activity in Canada. We have been protected. We could easily get it from offshore. The entrepreneurial spirit is only recently reviving in this country. It takes all those kinds of ingredients to motivate people to be on the leading edge and to be competitive in world terms. We are only suddenly waking up in this country and recognizing the need to do these things. Otherwise, we are going to be left behind in the world economy.

I think everybody now is realizing, and certainly my colleagues are, that we have been coddled and protected for so long that we have not lived in the real world when it comes to some of these things. Therefore, in some ways, we have to change our thinking to make us realize that we have to start to do things differently and get on the leading edge, get out there and take a few hard knocks. Research and development is one activity that in my experience has suffered from that phenomenon.

Mr. McFadden: How much are you spending on R and D now? You said that $105 million appeared from the central fund. Is that the total amount or is there money over and above that $105 million that is spent on R and D right now?

Mr. Hutchison: It would be close to that, basically. There may be other smaller projects that would be funded elsewhere, but the bulk of it is right there.

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Mr. Chairman: I am going to have to cut this discussion off. It is obviously intriguing members of the committee. We appreciate what you have suggested to us. I might suggest that we are going to take a look at the Ontario royalty disallowance. If that law is changed in some fashion, naturally, in view of your suggestions as to what we should be doing with the deficit, we may have to replace it with something else that may be even less palatable to your company, but I think you understand that. Thank you for your assistance. It was excellently prepared and presented and we appreciate it very much.

The next presentation is from the Ontario Mining Association. Patrick Reid is representing the association. The brief, which has already been given to you, is being handed out again and has been summarized by Mr. Bond on page 18 of your summary of prebudget submissions. Mr. Reid, I should inform you that we have already had a witness this morning who has recommended that the committee visit 53 countries in Europe. Knowing your own reputation in this august body, I expect you will have some suggestions for us that will be even more exotic.

Mr. Reid: I would be glad to join you and lend my expertise--

Mr. Ashe: Bring a chequebook.

Mr. Reid: --particularly in making the travel arrangements. I did not know there were 53 countries in Europe, but I am sure you could find them if you really looked hard.

Mr. Chairman: I expect you could find them for us. In any event, perhaps you could lead us through your brief and then we will have some questions for you.

ONTARIO MINING ASSOCIATION

Mr. Reid: It is a great pleasure to be here on the other side. The Ontario Mining Association purposely focused on just one matter relating to the operations of the Ontario government and budgetary process.

As is summarized for you, we talk about mandated costs which are costs passed by government fiat, by legislation, by regulation or by one of the emanations of the government such as the Workers' Compensation Board. In effect, they are costs to industries that are not profit-based taxes and have a large impact on the cost structure and ability to compete of all industries, but in our particular case which I am here to address, obviously, of the mining industry.

In the mining industry, we live in an international competitive economy. About 85 per cent of Ontario minerals are exported. A large proportion of that goes to the United States. We are in competition with people all over the world. If Hydro rates go up, if compensation rates go up, if occupational health and safety costs go up--all of these nonprofit-based taxes, in fact--it impairs the ability of the mining industry to compete in these international markets. It was interesting to hear the previous speaker talk about the fact that in this country we just seem to be waking up to the fact that we live in an international economy and that wealth and future benefits to the citizens of this country are based largely on exports. I think we have been operating with our heads in the sand to a certain extent over the last number of years and not realizing this.

I would like to give you an obvious example of workers' compensation costs. In the mining industry in the past 10 years, the accident frequency rate has gone down about 60 per cent and yet the costs have doubled. Of all nondirect wage costs, the so-called benefit package to our companies, compensation costs are about a third of those nonwage costs. Some of them were paying about $8 or $9 per $100 a payroll, so that gets to be a significant cost. If you look at the way Hydro has gone up over the rate of inflation and other costs, these mandated costs have a pretty heavy impact.

I would like to bring something to the attention of those of you who may have short memories or who were not here in those days. This is from a submission the Ontario Mining Association made to the Ontario cabinet in Timmins on January 15, 1986, by our president, Henry Brehaut. He reminded the cabinet that in 1979 and 1980, two private members' bills were introduced by the current Premier (Mr. Peterson) and the Minister without Portfolio (Mr. Van Horne) at a time when these men sat on the opposition side of the Legislature.

They were both very sound bills, the short titles of which were the Tax Expenditures Disclosure Act and the Program Cost Disclosure Act. The latter piece of legislation called for the public disclosure of cost information upon which decisions to undertake certain government programs are based and the economic impact of these proposed government programs. We are here just to make a short plea that would fit in with your standing rules that when a compendium of information comes down with a bill, or in some cases, a regulation, part of that compendium should be a cost benefit analysis as to who is going to bear the cost, how much that cost is going to be and who are the beneficiaries, supposedly, of those costs that are going to be added to the structure of industry and business.

Mr. Chairman: You are saying that in every case that should be a rule.

Mr. Reid: Yes, sir.

If you look at what has happened, you have the Ministry of Labour passing laws that cost money, particularly to industry. You have the Ministry of the Environment passing laws and regulations that cost money. Every government agency, in some cases, is layering costs on industry and business, and there is no sort of holistic approach to say where the straw is going to come that is going to break the camel's back and, ultimately, either put somebody out of business or deter him from making an investment.

Mr. Ashe: Mr. Reid, I noticed you had some quotes from two of your former colleagues. I noticed that you did not include any recitals of great words of wisdom that were put forward from the member for Rainy River during his tenure. I am sure there were many along the same lines in his role as critic.

Mr. Reid: Mr. Ashe, I would not suggest that if you read all those speeches you probably would not have to hold these hearings. This is probably a more pleasant way to spend your time.

Mr. Ashe: I happened to hear something along that line.

Mr. Reid: A number of times.

Mr. Chairman: I have some questions if you are prepared to take them, from Mr. Haggerty, Mr. McFadden and Mr. Foulds.

Mr. Haggerty: Mr. Reid raised the matter of the Workers' Compensation Board rates and he said that, although the accident rates are down in the mining sector, the rates have gone up considerably. I am sure he is well aware that WCB is now looking at more appeals in the area of industrial diseases related to the mining sector, and that is perhaps where the extra cost is put on for the mining sector.

I bring to your attention that we are still looking at the area of silicosis. We do not have that actually defined as long-term exposure. There are areas that are affecting not only the mining sector but also manufacturing in Ontario. It is an area in which, in the past, they should have probably set a certain amount of funding aside to cover that sector of industrial diseases, long-term exposure, persons who now are being affected by some form of industrial disease. It is tough on anybody paying compensation rates because they certainly have gone sky-high.

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Mr. Reid: In terms of silica, there are very few cases, and in terms of occupational health and safety claims, there is only two or three per cent. We expect they are going to be much higher; I agree with you in that respect. But part of the reason for the costs continually escalating is that the Legislature in its wisdom passes laws increasing the level of benefits. We are not saying that is not right and proper; all we are saying is somebody in the government should look at the numbers to see how that is affecting the ability of employers to pay.

I have had some experience in this arena, as have you people and you hear that if you do this, somebody is going to go out of business. Nobody ever goes out of business primarily because of one aspect, whether it be compensation costs or whatever, but I can tell you from my perspective that

the cumulative effect of all these things, without anybody sort of realizing what costs are involved, is affecting employment opportunities, new investment and the ability to retain workers.

If the costs get out of line, people start cutting employment, which is what the mining industry has had to do since 1981. They have cut about 10,000 people. We have seen it in the mining industry, the forestry industry and other manufacturing. Now some employment has come back a little, but if you cannot compete, if you cannot meet international prices partly because of these costs--and we are only talking a small part of it, but it is an important part--then people get laid off. It seems counterproductive for governments of the day to run around saying, "We are going to create jobs," when at the same time they are layering costs that industries, particularly marginal companies, cannot bear.

Mr. Haggerty: I have found, for example, that in the Inco nickel refinery in Port Colborne, before it had the intensive layoff, a number of injured workers always found jobs, light, modified work within the industry. As soon as the market for nickel and exports had depleted to some degree, they had to be cut back. It was not because of the injuries; they were cut back because the market had been substantially reduced.

Mr. Reid: Sure, but the overall demand in the mineral industry has been fairly steady; it has not been growing like it used to. The problem is there is a heck of a lot more competition from other countries out there in terms of nickel, copper, iron ore and things like that. What used to happen was that high-cost producers would shut down and go out of business. That does not happen as quickly as it should.

Mr. Haggerty: In the copper market, and even in the nickel market, it is not the world competition. You have other factors out there. There are substitutes for copper and nickel. Plastics have taken over. Much of the plumbing done in homes today is done with plastics. Even in industry itself, chemical plants are using plastic.

Mr. Reid: There are lots of reasons for what is happening. Do not get me wrong. I am not saying these costs of government are the cause of the mineral markets being what they are. There is substitution, there are Third World government-nationalized operations and there is a whole downsizing in cars. But if you look at the figures of demand for most of these minerals, you will see the demand is steady or growing by maybe one half per cent or one per cent a year. The problem is there is a world oversupply. What I am trying to say is, those countries or mines that can produce it at the lowest cost are the ones that are going to survive.

Mr. Haggerty: You even have natural gas rates increasing by 78 per cent. Are you aware that a recent decision of the National Energy Board now allows industry to bypass the local utilities and buy directly from the wellhead, you might say, from Alberta, and just pay the transmission cost of bringing it into Ontario?

Mr. Reid: Yes. We were involved in those negotiations a year and half ago on the western accord as it related to natural gas and we supported the move that the large industrial users could have a direct contract with the producer.

Mr. Haggerty: I have no further questions.

Mr. McFadden: I wanted to ask a couple of questions in relation to the economic impact on the Ontario mining industry. There are some figures cited there. The total value of minerals mined in 1985 was $4.6 billion. We then go down to the 1985 exports for Ontario and see that minerals and mineral products accounted for $5.4 billion. I know you have minerals and then obviously you have products that incorporate minerals in them.

First, I am curious to know how the figure of $4.6 billion you have in the first citing was developed, in relation to total minerals of $5.4 billion in minerals and mineral products. Second, what per cent of the mineral production is exported and to whom? Do you have those figures?

Mr. Reid: In the first instance, those figures are based largely on the submission that was given to this very same committee by the Ministry of Northern Development and Mines when it was discussing free trade. Those are not our figures, although we would not disagree with them. About 75 per cent to 80 per cent of our minerals go to the United States. Of the other 25 per cent that is exported, some goes to Europe and some goes to the Asian countries.

Mr. McFadden: You say 75 per cent to 80 per cent of our exports go to the United States and the rest goes to Europe.

Mr. Reid: And Japan and Korea.

Mr. McFadden: Any other major player?

Mr. Reid: No.

Mr. McFadden: What per cent of our total production is exported?

Mr. Reid: About 85 per cent of Canadian and Ontario production.

Mr. McFadden: We use only 15 per cent of what we produce within this province. When you are talking about being competitive, you are talking about the life of the whole industry.

Mr. Reid: With the exception, probably, of the gold miners, we are really dependent on those foreign markets: uranium to the United States and Japan; nickel mostly to the United States, but also to the European Community and the Asian countries; copper largely to the United States, but in those markets as well.

Mr. McFadden: What do you feel in terms of the future and our possibilities for exports over the long run? You have been talking about the rise of competition. Do you feel we are going to be able to maintain this level of production and exports over the medium term? It is hard to project much past the next couple of years. Is that your expectation? Are we facing a downturn or an upturn?

Mr. Ried: We are facing some pretty severe problems, and this whole business of free or freer trade with the United States is part of that. Basically, there is no mystery to it; the lowest-cost producers are the ones who are going to survive. To keep your costs down, you have to be highly technically with it, if you like. We are a high-tech industry, more so than most of you would suspect; certainly more so than I expected when I went with the Ontario Mining Association.

We have rich ore bodies. We have multi-ore bodies. You find copper and nickel together and zinc and copper together, so there are byproducts that sometimes help. When one is down, the other might be up a little bit.

Basically, if you can provide that ore at the lowest cost, you are going to survive. If you cannot, and you have a layer of taxes, these mandated costs and so on, you are not. It helps if you have a rich ore body too.

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Mr. McFadden: On page 5 you talk about recommendations. Obviously, in terms of economic analysis and the impact of various tax and programs, in order to deal with the kind of concerns you have, we would have to look very carefully at the world market and impacts that our changes might have on your ability to compete worldwide in addition to anything that might be happening in this country.

Mr. Reid: That is right. I have got some figures here and I did not have time to make copies for everyone. The price of nickel is now around US$1.70 or US$1.75. Two years ago it was US$2.25 or US$2.50. In the meantime, wages and everything else have gone up. Copper is around 68 cents. I cannot tell you specifically, but that is about the break-even or maybe a little loss to most companies.

When I took economics in college, I thought this business about marginal producers and marginal costs was a lot of bunkum. When you see that a penny or two on the pound of nickel of copper can make a difference in whether that mine keeps operating and people remain employed, it makes a hell of a difference. I have to admit when I was here, I did not really consider those things. We get here and we pass laws and regulations without sometimes giving these things the little deeper thought that they should have. It does not occur to most of us that a penny or two is going to make any difference to anybody, but it does.

Mr. McFadden: I agree.

Mr. Foulds: Just a couple of questions. First, do you know how much Canadian manufacturers import in minerals into Ontario?

Mr. Reid: I think it is about 10 per cent or 15 per cent of the total. It is relatively very slight. I believe it is mostly in iron ore, but I am not exactly sure of that.

Mr. Foulds: Most of that would be in dedicated mines that the manufacturing company actually owns and controls.

Mr. Reid: Yes.

Mr. Foulds: A rough figure is about 15 per cent.

Mr. Reid: Yes. That may be high.

Mr. Foulds: Yes. So there is not a big expansion internally in the province that we can have in that area.

Mr. Reid: No.

Mr. Foulds: I have another question for you. It is not an easy

problem dealing with the mandated costs, because I do not think you are arguing that you should get out from under those costs. I have some problems with your recommendation that we have an economic impact study for every piece of legislation and every regulation, because knowing how this place works on some things, we would never get anything done.

Mr. Reid: There are those who think that is not such a bad idea. I appreciate that.

Mr. Foulds: Does it make sense to have that impact study done before the legislation or the regulations are developed?

Mr. Reid: I think you have to have the legislation and regulation at least in draft form so you know what effect it is going to have. Then you are going to have to go out. It is going to take some pretty sharp expertise to be able to do this kind of thing.

Let me just give you one example. I was down at a mineral economic conference in Denver two weeks ago. They brought in an environmental process that pretty well put their copper mines out of business. It was sort of a final straw. They calculated that it cost them about nine per cent in capital costs and about 3.5 per cent of their operating costs to run these things. When the federal government considered what one environmental program was going to cost industry, they figure the total cost to all the industry in that sector would be $63 million. The final cost to the industry was $2.25 billion. There is a message there.

Mr. Chairman: Surely that is suggesting that in a lot of cases the study will not be very accurate.

Mr. Reid: I think the point is that people have not done this so they do not have the expertise and they do not have a methodology in which to do it. For instance, if you are looking at the Ministry of the Environment's municipal-industrial strategy for abatement program, which is almost a carbon copy of the US program, you can look there and get some rough idea at least of how much that is going to cost in relative numbers.

Mr. Foulds: Just one final question: Obviously, the gold mines at Hemlo are going to be quite productive and quite profitable. Because of their location, they will not be paying any municipal taxation, and I think they should be. I would like to hear the OMA's argument either for or against that.

Mr. Reid: I thought this question might arise. First, we are discussing within our member companies what position we, as an association, should take. I would point out to you two things. One is that one of the companies asked for serviced lots in Marathon and paid the full cost of those serviced lots, with sewer, water and so on. As I understand it, they said, "We will pay the full cost of those serviced lots so that the general taxpayers do not have to subsidize this."

I can tell you another little story that somebody suggested to one of the mines the very same thing as you have suggested. The response from this particular individual from the company was, "As long as we get fire protection and sewer and water here, we have no objections." When they worked the figures out on that--this goes back to cost benefit--it would have cost Marathon about $13 million and it would have collected about $6 million in tax.

There is a problem with these things, and they have to be dealt with.

The problem you get into is if you decided these companies should be taxed for municipal purposes, you are going to affect some very marginal operations that can make a small or reasonable profit. However, if they have to pay municipal taxes when they are not getting the services, as well as federal income tax which for the mining industry is about 36 per cent, provincial corporate income tax which is 14.5 per cent, and then the Ontario mining tax, which is, as you well know, a 20 per cent flat rate on top of all that, you start making some investments and some continuation not economically viable.

Mr. Foulds: All I am looking for from you is some consistency in that, not in your argument, which was consistent, but in that some mines now are part of incorporated municipalities.

Mr. Reid: But they are within a reasonable area of town boundaries.

Mr. Foulds: The argument about Timmins is--

Mr. Reid: Yes, and Sudbury. Some of you will know I used to represent Ignace. The Mattabi mine is 55 miles or 60 miles from Ignace and most of the people are living in Ignace. I think the company did a lot for Ignace, but there used to be some relationship between taxes and services received. So you have to ensure that happens.

Mr. Foulds: You would agree there should also be some relationship between taxes and services required, what is required and what is causing the requirement.

Mr. Haggerty: Is there any provincial land tax from the Ministry of Natural Resources applied to mines where they are using MNR lands? Are there any direct taxes?

Mr. Reid: I believe there is something but I do not think it amounts to anything.

Mr. Haggerty: It is pretty low. I know that. Does it apply when you get a startup of a mine like this or use the MNR facilities? There is usually a tax on it but I do not know what it would be.

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Mr. Reid: No. If there is, it does not amount to anything. Speaking of that, I want to make a point. It was interesting when I got into this business. There was an article in the Globe and Mail yesterday in the Report on Business section entitled, "Federal Budget Cuts Would Be Widely Felt." I just want to bring to your attention that, in my experience, the mining industry receives fewer grants and subsidies and less assistance from the taxpayer, either federally or provincially, than probably any other industry sector in this province or Canada.

This article dealt with some of these programs you were talking about with the IBM people, whether this or that should be cut. The mining industry does not have the benefit of a lot of the programs that others have. For instance, in terms of municipal taxation, a lot of companies have provided in their communities social assets like arenas, curling rinks and swimming pools.

Mr. Taylor: Even hospitals.

Mr. Reid: Even hospitals. They are not allowed to expense these as

capital items. They are allowed to deduct the operating cost on their taxes, but if they build a hospital or arena for $500,000, they cannot deduct that as a business expense.

Mr. Haggerty: I was going to get into the MISA program, but that area is costly to muncipalities too, for treating industrial waste.

We had the Canadian Federation of Independent Business in yesterday. They wanted to reduce the provincial deficit more than anything and were a little sceptical about the subsidies given to certain industries, particularly the automobile sector in Ontario, where the federal and provincial governments had got on the bandwagon to encourage investment from offshore and the establishment of new automobile plants at Cambridge, Barrie and other places.

I was interested in the comments at a session I attended with the corporate leaders of Inco in Canada. They brought to my attention that if, for example, Canadian content were a serious matter--which it should be in the new automobile sector that is coming in here instead of bringing in parts from offshore--if five pounds of nickel, at $1.70 a pound, had to go into each car, we would be looking at about a $12 investment, which would turn the nickel industry around.

Today, if you lift up an automobile hood on a new car and look under it, you see nothing but plastic. There is always a question of safety. For example, the fuel line going into the carburetor is made out of a synthetic material. Have you done any study in this area of Canadian content, particularly with respect to the copper that used to be in the carburetor system of these vehicles, the plastic which is now clipped on and the potential fire hazard? Has your association done any studies?

Mr. Reid: No. Our association has a very small staff, almost smaller than an MPP's staff, and we do not have the facilities to do that. If you look at the cost benefit of some of these things and start figuring out how many jobs some of these things cost, I think you would find out you are creating jobs at an enormous cost and in some industries that do not need subsidies and grants, that kind of assistance.

Mr. Haggerty: I was making the point that as much as we stick more plastic in there, when eventually these things go to the scrap heap, we have a problem with that material, which is in some cases considered toxic, whereas if more nickel, metal and copper was being put into these automobiles, it would be recyclable.

Mr. Reid: There is something called the Nickel Development Institute, there is a Copper and Brass Development Association and there is a Zinc Institute. All these operations have a mandate to find new ways of using metals, new products and so on. They promote those kind of uses.

Mr. McFadden: They say that in the 1990s cars are going to start using ceramic engines. They say it is more efficient.

Mr. Reid: Once again, you will only have ceramic engines if you can produce them at a cost that is less than we can produce the minerals at.

Mr. Taylor: But if you take the price of an automobile today, even an intermediate car, you are looking at $25,000. The price has gone sky-high. All you are getting in them is plastic. That is all I am saying. The safety factor has disappeared in a sense. We should be taking a closer look at this

and finding out if this stuff is going to be brought in offshore; no doubt, it will be parts from Japan.

Mr. Taylor: Why should it not be? We are paying hundreds of millions of dollars to subsidize Japanese manufacturers to locate here.

Mr. Chairman: I think I should still be driving my 1949 Dodge. It was made entirely of steel.

Mr. Reid: My Edsel is still in the garage.

Mr. Chairman: Mr. Reid, thank you very much. You have given us some very interesting ideas. The Treasurer is inside the walls right now listening and will be discussing these matters with us, as you know. We appreciate your input.

Mr. Reid: Thank you very much, and God bless you in your good works.

Mr. Chairman: Members of the committee should be reminded that this afternoon we will work until about 3:30 p.m. and then have an hour's break. We can come back here at 4:30 p.m., at which time a television set will be set up to watch the proceedings in the House of Commons when the federal budget will be tabled.

We will have representatives from the Treasury prepared to talk with us at that time. Unless there is a strong suggestion to the contrary, I thought it would be more appropriate not to have Hansard on, because it could be confusing with the TV and so on. We can perhaps better benefit from a more relaxed discussion with the Treasury officials on whatever comes out of Ottawa.

The committee recessed at 12:17 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

WEDNESDAY, FEBRUARY 18, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.
Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Nurses' Association:
Lynn, G., President
Babad, A., Nursing Practice Officer
Slattery, G. C., Chief Executive Officer
Nousianinen, S., Research Officer

From the Ontario Federation of Students:
Certosimo, M., Chairperson
Weir, S., Chairperson-Elect
Wright, H., Member, Board of Directors

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 18, 1987

The committee resumed at 2:10 p.m. in room 230.

BUDGET REVIEW
(continued)

Mr. Chairman: Let us get started this afternoon. I should indicate to members of the committee that there will be cookies and coffee at 4:30. The reasoning of the chair is that there may be very little to consume in the federal budget and we will want to be consuming something at that time. That will be in this room at 4:30.

The Ontario Nurses' Association is with us now and its brief, which was distributed as exhibit 22 on January 22, is also in front of you. It is summarized by Mr. Bond on page 10 of the summary of prebudget submissions. We have with us Gloria Lynn, the president, Glenna Cole Slattery, chief executive officer, Arlene Babad, the nursing practice officer, and Seppo Nousiainen, research officer.

Perhaps it would be best if Ms. Lynn would lead us through the brief to some extent and then leave time to entertain questions.

ONTARIO NURSES' ASSOCIATION

Ms. Lynn: I have a verbal presentation and I will go through it.

Mr. Chairman and members of the standing committee on finance and economic affairs, the Ontario Nurses' Association is the union which represents more than 45,000 registered and graduate nurses employed in hospitals, nursing homes, homes for the aged, public health units, Victorian Order of Nurses and medical clinics in industry. I would like to take this opportunity to commend the government for allowing this union to make its views known to the government prior to finalizing the 1987 provincial budget.

The union's proposals fall into two main sections: concerns related to health care and problems which impact on nurses in their roles as professionals and employees. I would like to address these now.

It is generally acknowledged that the demand for health care will continue to expand well into the foreseeable future. While consumers believe the province must have a commitment to fulfil these demands, there is a perception that uncontrolled health care expenditures could jeopardize our social support system within the next decade. Whether this perception is true or not, the prudent approach is to undertake a major reform of the health care system.

Ontario's health care system emphasizes curative strategies delivered by physicians in highly technical institutional settings. The government must shift more resources towards public health and community-based services. To do that effectively, the current structure of municipal-provincial cost-sharing for these programs should be eliminated. At present, any increase in provincial contributions is dependent on a municipality's ability to increase

its own contribution at a corresponding rate. However, the problem is that some municipalities have limited tax resources or limited political commitment to support such services. This union believes that full, 100 per cent provincial funding is necessary to ensure that every person in this province has equal access to programs of comparable range and quality.

These rigid and unrealistic cost-sharing requirements and inadequate provincial funding have also contributed to disparities in the provision of home-based services such as meals, transportation assistance and homemaker services. The union welcomes the government's recent efforts to maintain and expand services and develop new initiatives in underserviced areas. However, the allocation is still far from adequate.

Health care costs can also be reduced by a significant realignment in the roles and responsibilities of the various participants in the health care system. Studies have proven that nurses can have a positive impact on lowering health care costs, increasing quality and accessibility by acting as primary care providers; that is, the first contact with consumers and the point of entry for health care services.

Primary care nurses can operate in a variety of settings such as the work place, storefront counselling clinics and public health units. One of the most promising models for health care is the community support centre which would provide a co-ordinated entry point to comprehensive social and health services at a neighbourhood level. Such centres would employ teams of nurses, physicians and other health care and social service workers to provide a comprehensive range of services.

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Part of the role of community support centres would be to ensure that people are referred to more specialized and sophisticated services when needed and to ensure appropriate placement in the level of care that is best suited to patients' needs. Inappropriate placement is one of the chief inefficiencies in our current health care system, particularly in services for the elderly.

It has been estimated that up to 30 per cent of acute care hospital patient days could be spent in less costly nursing homes if beds in such facilities were available. It has also been estimated that a similar proportion of nursing home residents are inappropriately placed because of a lack of community and home-based support services.

Ontario, in fact, institutionalizes the elderly and the disabled at a greater rate than any other jurisdiction in the world. There will always be people for whom institutionalization is unavoidable, but it should be reserved for those whose physical and mental needs are so great that they require constant supervision. Our health care systems must provide a continuum of health care services for the elderly so that they can be accommodated in the setting that is most appropriate for their needs and can remain self-sufficient for as long as possible.

If, indeed, more resources are directed towards nursing homes, the increased funding should be used for the improvement of the standard of care in the homes, not for increases in the profits of the nursing home operators. Staff working in nursing homes also need consideration. The union is told constantly by certain nursing home operators that they cannot afford pensions for nurses. If there is merit to this argument, the union believes it is the responsibility of this government to provide sufficient funds to fund pensions adequately.

The union believes that university funding must consider the development and expansion of innovative methods of educational delivery. Nurses can work in remote areas of Ontario. Nurses also work shifts.

Government should ensure moneys are available so that health care facilities can provide adequate staff orientation and in-service education programs. There should also be appropriate financial incentives in place to encourage nurses to remain in the nursing work force. Such incentives should include financial recognition for advanced education or experience.

The second thrust of our proposal is the area of employment-related issues. There are four main issues the government should undertake in the 1987 budget. They are occupational health, day care, pay equity and a reformed interest arbitration system. The number of work place illnesses and injuries has reached epidemic proportions. This union believes workers have the right to protection and expect that every possible measure will be taken to protect them from occupational hazards. Workers also have the right to participate in all levels of decision-making to ensure high quality of individual and work place health. The government must make a commitment to an ambitious set of programs and policies to respond to the crisis.

The union supports recent government initiatives to introduce provincial right-to-know legislation. However, such legislation must be backed by meaningful worker and labour participation in the decision-making process about work place safety. Joint health and safety committees must have full access to relevant information and their decisions should have the status of directives, not recommendations.

Education and training of workers, managers and health practitioners regarding work place health and safety is also essential. The education curricula of health practitioners must be broadened to include occupational health and safety. Upgrading programs or practising physicians and nurses should be developed and be provided through community health centres, community colleges and public health units.

Day care is another important issue that needs immediate and serious attention. Studies at national, provincial and municipal levels over the past decade repeatedly document the crucial shortage of licensed day care space. There is only enough licensed space to meet the needs of nine per cent of the children in Ontario who require day care. The problem is compounded by the fact that most working parents are expected to purchase day care from private operators at the market rate. The Ontario government should act as the prime catalyst in reforming the day care system.

The achievement of pay equity should receive special consideration in the new budget. Our union supports the Ontario government's commitment to the achievment of pay equity. However, we are concerned that the current pay equity proposals make no provisions for a separate fund which would be specifically earmarked for implementing pay equity. There is a danger that pay equity adjustments will be made at the expense of other collective bargaining objectives. That cannot be allowed to occur. The government should make a special allocation for this purpose.

Reforming the interest arbitration process is overdue. We cannot wait any longer for the government to take action. The lack of seasoned interest arbitrators has reached a crisis point. The major difficulty lies in the inadequacy of fees paid to arbitrators. At present, the fee set at the Ministry of Labour for interest arbitration is approximately $270 per day,

while rights arbitrators may earn up to $1,500 a day. Obviously the most capable arbitrators are reluctant to take up interest cases.

With government health care expenditures amounting to approximately $10 billion per year, this union believes it is a mistake to underfund the interest arbitration system given the size of the stakes involved.

In conclusion, we believe that given the favourable economic outlook there will be sufficient revenues to cover any increases in government expenditure for deserving programs. Clearly the days of restraint are over. The province is now in a position to fund major new public programs and this union urges the government to adopt the measures outlined in our presentation.

I thank the committee for its attention and we would be pleased to answer any questions.

Mr. Chairman: A number of members wish to ask questions. I have Mr. Ferraro, Mr. Taylor, Mr. McFadden and Mr. Foulds.

Mr. Ferraro: First, let me say that was a well-presented brief. It was very thorough and concise. I agree totally with the main thrust of the first part of your brief where, if I can be so bold as to draw my own conclusions, you are saying the nurses in Ontario are particularly underutilized as far as their abilities are concerned.

Ms. Lynn: That is correct.

Mr. Ferraro: I am not trying to sound like a politician here, to soft soap you--I do not know how you vote or if you vote, but I hope you do--but I think it is true. I think they are terribly underutilized. My question in that regard is twofold. In particular, I am interested in the community support centre idea. What is the union doing to promote that and, at the same time, what is it doing to get away from the fact you are being underutilized? How are you lobbying in that regard?

The second part of the question is, I assume, perhaps incorrectly, that you probably are getting some resistance from the Ontario Medical Association; are you?

Ms. Slattery: If you will note on page 3 of the major brief--

Mr. Ferraro: That is one of the pages I have. Unfortunately, the brief that was sent to us just has odd pages.

Mr. McFadden: We have every second page. We did not know whether you were ad libbing or whether this was specially edited, so we know only every second thought you have.

Mr. Foulds: I think it is symbolic we got every odd page.

Ms. Slattery: This is the one I am talking about. Do you have this?

Mr. Ferraro: The clerk of our committee applied to be a nurse but he did not make the cut, so he is somewhat vengeful.

Mr. McFadden: We are attempting to get additional supplies.

Ms. Slattery: No doubt frugality is part of it, but every other page is not necessarily frugal, is it?

On page 3, where we talk about preventive strategies, down towards the end it says, "In 1984-85, only three per cent of every dollar spent by Ontario on health care was allocated to public health. Public health expenditures, as a portion of the total Ministry of Health budget, have increased by only 2.05 since 1973," whereas the entire health care budget has increased by 256 per cent in the same period.

When you ask whether we have a bit of a problem from time to time with physicians, I would say those statistics answer that quite clearly. There is no doubt that the roles are grey and overlap from time to time. Not so much in downtown Toronto, but in the remote areas where there are no physicians, we are allowed--maybe even encouraged--to do many fine things.

What the president has said is that we believe we are underutilized in a variety of areas--not the least of which are public health, prevention, early detection, monitoring and early referral--before institutionalization is the only thing that a citizen can turn to. But when you are talking about the problems, there are so many factions in the industry. First, you ask, "Does the Ontario Medical Association agree with us?" Not always, but sometimes.

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In the instance of underutilization, there are 100,000 women in this province who, if they wanted to tomorrow morning, could apply for a job based on the fact they have the credentials necessary. Approximately 65,000 of them are working. You hear about the nursing shortages and what have you. They are either being underutilized or they are being overutilized in that you burn them out in about a year and a half. The lightbulb will not last nearly as long if you never let it go out.

Do the physicians share our views on some of these things? No. But that does not necessarily mean we are wrong. Underutilization of the existing work force is probably the single most uneconomical factor the province deals with.

Mr. Ferraro: I assume you, as an association, are going to be making a presentation to the select committee on health.

Ms. Slattery: Oh, yes. They know us real well.

Mr. Chairman: To follow up with that last sentence in that paragraph on page 3--I do not fault you for this at all, but just to make sure I understand it--the total Ministry of Health budget has gone up 256 per cent since 1973.

Ms. Slattery: That is footnoted at the back. That comes from the Ministry of Health's annual report.

Mr. Chairman: I am not quarrelling with your figures. The public health expenditures, as a percentage of that budget, have increased by two per cent. Is it not logical for me to assume that the public health expenditures have increased by more than 256 per cent since 1973?

Ms. Slattery: No.

Ms. Lynn: No.

Mr. Chairman: Have I lost something there?

Mr. Morin-Strom: It has increased by two per cent.

Ms. Slattery: It is 256 per cent.

Mr. Chairman: That is not what this says. It says as a portion of the total budget it has gone up two per cent. Is that not correct?

Mr. Nousiainen: It says that the total budget has gone up, but that portion of the budget for public health has gone up only two per cent.

Mr. Chairman: I know you use the word "only," but in actual fact it would have gone up more than 256 per cent.

Mr. Morin-Strom: As a portion, it has declined.

Mr. McFadden: In other words, since 1973, the total amount spent on public health has gone up only two per cent?

Ms. Lynn: Right.

Ms. Slattery: But the whole health budget has gone up. You used to have a dollar that you spent. Now you have $256 that you spend. You used to spend 10 cents on public health--

Mr. Chairman: Less than that.

Ms. Slattery: --and now you spend 12 cents.

Mr. Chairman: You now spent three cents out of that dollar, and that is an increase of two per cent over what you spent in 1973, is it not?

Mr. Morin-Strom: No, that is not right.

Ms. Slattery: In 1984 and 1985, you spent three per cent.

Mr. McFadden: Do you have the actual figures?

Ms. Slattery: We can get them for you.

Mr. Chairman: I would be interested in seeing that.

Mr. Nousiainen: You had a massive increase in health expenditures in general. This portion has increased hardly at all.

Mr. Chairman: But it has increased?

Mr. Nousiainen: It has increased.

Ms. Slattery: Two per cent.

Mr. Morin-Strom: Are you not saying if the total expenditures were $100 back in 1973, they are up to $100 plus $256, which is $356?

Ms. Slattery: Right.

Mr. Morin-Strom: You are right now at about three per cent of that?

Ms. Slattery: That is right.

Mr. Morin-Strom: Of $356, that is about $10, but that is up only two per cent; so they were spending $9.50 before and now they are spending $10?

Ms. Slattery: Right.

Mr. Nousiainen: Virtually no increase.

Mr. Foulds: Your problem, Mr. Chairman, is a grammatical one and not a mathematical one.

Mr. Chairman: So what you are saying is it has increased two per cent over what was spent on public health expenditures on a base--

Mr. Nousiainen: On a base of 1973.

Mr. Chairman: Which is not what you said in your brief.

Ms. Slattery: Basically, what we are saying to you--and maybe we should say it right up front--is that what the province thinks it is spending on health care, this $100 plus this $256, is actually being spent on sick care. For me to take advantage of access into the industry, I have to get sick. The gate is guarded by a doctor; I get in when he admits me and I get out when he discharges me.

We are telling you that there are 100,000 women in this province who could deliver health care so that you do not have to get sick to get into the industry. You already have in place mandated services: hearing detection and screening of schoolchildren, clinics for well babies, annopartum and postpartum clinics, geriatrics, the elderly in your homes sector where Meals on Wheels and lots of other things keep them uninstitutionalized. That is what I consider health. If you are hit by a truck, that is sick.

The way the system is structured now is it is geared towards pathology; we are telling you that if it were geared towards prevention, there would be less pathology and, ergo, cost savings. You already have health mechanisms mandated in the municipalities. There is a cadre of women out there who, if they were truly to be used as health care workers, would prevent a lot of the sickness. It is an inappropriate disposition of the province's money. Quoting Mr. Peterson: $10 billion a year; $27 million every day of the week; it is big business, gentlemen.

Mr. Chairman: It sure is.

Mr. Nousiainen: I see the difficulty in the construction.

Mr. Chairman: Yes, but I know the point--

Mr. Nousiainen: We will clarify that for you.

Ms. Slattery: We will tell you where we got the numbers.

Mr. Chairman: I would appreciate that. The point you are trying to make is that we should be spending a lot more on wellness.

Mr. Nousiainen: The main point is that we really must spend a lot more. If we were to take out as a portion of the total Ministry of Health

budget, we would be correct in saying that there has been a two per cent increase since 1973 and a 256 per cent increase in the same period, but by putting in that portion, it does confuse the issue. I can see that.

Mr. Chairman: That makes the figure even more ominous.

Mr. Nousiainen: That is right.

Ms. Slattery: We will send the committee the materials where we got these figures from.

Mr. Chairman: I would appreciate that.

Mr. Taylor: I was very interested in your presentation, especially as I perceive the emphasis on public health nursing to be preventive medicine as opposed to what you call ministering to the sick. Coming from a rural area, I have more appreciation of that than some others. I certainly feel that there should be added emphasis in this area in the whole programs. I want to make that clear. Maybe there should be more profile given to this area.

What troubles me as a member of this committee, which is addressing some of the problems out there and some of the budgetary problems that all governments are facing today, is the potential price tag. The country is broke. That has been said and reinforced. It is a question of how you adjust your priorities to emphasize those areas that need strengthening and reallocating of funds. Have you any idea--I am coming to my question now--what the price tag would be on your list of recommendations?

Ms. Slattery: If you think in terms of that philosophy, then you have answered your own question. I am not sure I share the conviction that the country is broke, but--

Mr. Taylor: I will not go into that and name the figures, what our debt is and how it is increasing and so on; anyway, go ahead.

Ms. Slattery: There is a mandated health care delivery system here. It is on the books: "A citizen of Ontario will be able to get" this, that or the other. The key to it is equal access.

Mr. Taylor: You have all these rights, but often nothing comes out the other end.

Ms. Slattery: Yes, something comes out the other end, but not always the same rights.

Mr. Taylor: It may be a bureaucracy.

Ms. Slattery: The bottom line is--

Mr. Taylor: It is certainly not equal opportunity, again from what I see in the rural areas.

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Ms. Slattery: I am from a rural area, and I share your views. It is a different ball of wax there. But still, if you are sick, you are sick.

If indeed money is the question, how can you afford not to attend to prevention? If it is a problem to deal with the pathology that is already here

in terms of paying the members of my union--this is not volunteer work; those are their careers--you would be foolhardy not to spend money on prevention, because the cost savings at some point in time would probably put the industry into some kind of balance. We are saying it costs so much for health care because it really is not health care; it is sick care. It costs a lot to put somebody on machines or what have you. Those are highly technical areas. We are saying you could give the citizens of the province true health care if you helped them not get sick in the first place.

Mr. Taylor: I appreciate all that and I am not arguing with all that. What I wanted to know is whether you have costed your list of recommendations.

Mr. Nousiainen: We have not specifically costed them, but what we have proposed here in fact would probably lead to cost reductions because you are moving away from expensive health care to preventive health care, to better use of health care professonials, to deinstitutionalization. Most of these proposals would actually lead to a cost reduction, not an increase.

Mr. Taylor: On that basis, without the figures and without costing this, could you identify the areas that would cost less?

Mr. Nousiainen: The total bill for health care would grow less rapidly. If you do not do something like this, the cost curve will be virtually vertical. If you do take up some of these proposals, the cost curve would be something like that.

Ms. Babad: Ultimately, in the long run, you would be saving money on institutional care.

Mr. Taylor: I appreciate the debate in terms of institutional care, home care and all the rest of it. Sometimes you have to have institutional care; sometimes it is not appropriate to have home care. Sometimes the costs are more hidden in home care too. Then you have some mechanical problems in terms of the people who are going to service the people who are going to stay in their homes and all that kind of thing.

We are talking about a current budget and competition for a finite sum of money, I would think. It has always been this way. If you give more to one area, presumably you have to take something from some other area. I am just wondering whether you can identify the areas that you would take from.

Mr. Nousiainen: Presumably, you would have less growth in institutional care. You would have less Ontario health insurance plan payments. You would have less of other forms of payments that are tied to physicians' services; so you are going to get an automatic reduction in any case. You would not necessarily have to budget for a reduction in any area. What would happen is that the usage would be reduced, leading you to a cost saving. The overall effect is still going to give you a cost reduction; so I do not see that you actually have to cut anywhere specifically, not that it would not be desirable in some areas perhaps, but that is another issue.

Mr. Taylor: If the province--never mind the federal government with its $30-billion-odd a year, spending more than it takes in during the current year--is spending $1.5 billion more this year than it has taken in, or maybe a little less than that now, then it is deficit financing. You have to borrow more money, presumably, or you have to take it away from somebody who is getting it now. You have to budget. It is okay to say, "Do not worry about it;

we are going to leave it all open-ended and it will all balance out in the end." But I do not think that is the way to solve the budget problem.

Ms. Slattery: The only way you can balance it out, as it exists right now, is if the government is willing to put criteria on access.

Mr. Taylor: That might be a suggestion.

Ms. Slattery: It is possible. I think it would be very difficult to sell to the citizenry, but with increased technology and increased costs, not the least of which are labour costs--however, out of the $27 million a day that they have spent, you are talking about an industry that is labour-intensive, 80 per cent women. Within the industry, the single largest worker category is the registered nurses, who are 98 per cent women. You read in your local newspapers of the nursing shortage. One of these days, some folks will get sick and there will be nobody there to take care of them. Then I suppose the budget will be reduced because you will not have to pay for care that is not given.

Mr. Taylor: We do that now, do we not? When you ration the number of nursing home beds, for example, what you are saying is, "We are going to limit our budget by not having the intake system." That is what it does. In terms of hospital beds, it is the same thing; you limit the physical plant so you can only accommodate so many people. There are all kinds of programs where that is what government does. There are all kinds of waiting lists.

Mr. Chairman: This is a very pertinent debate, but I do have four other questioners, Mr. Taylor. If it is all right, I will move along.

Mr. Taylor: Sure; go ahead.

Mr. McFadden: I found your sections dealing with preventive health care and community care to be very persuasive. Before I got involved here, I spent a number of years in community mental health. My sister is a public health nurse; so we spent a lot of time talking about public health.

Ms. Slattery: I bet you have.

Mr. Chairman: So is my sister.

Mr. McFadden: Is that right? There you are.

She was out on strike for months and I used to hear a lot about it.

Mr. Foulds: The McFaddens cannot be all bad.

Mr. McFadden: That is right; exactly.

One question I have is, what is the total number of nurses in Ontario right now? Do you have a figure on that?

Ms. Slattery: One hundred thousand.

Mr. McFadden: That includes everybody?

Ms. Slattery: Yes.

Mr. Nousiainen: Nonpractising included.

Ms. Slattery: That is everybody who, if they wanted to, could go and get a job tomorrow as nurses. Those are the figures from the college, which gives out the registrations.

Mr. McFadden: There is one aspect that I thought was very interesting in the area of public health and community health. I could go on all afternoon on your brief, but I will just zero in on one area, since you have very limited time here.

It struck me, looking at it, that we have developed quite a Cadillac model in our health system. One of the difficulties we face right now is that the introduction of high technology in health care has led to a per unit increase in cost. It is about the only area I know of in the economy where high technology has not led to a per unit decrease but has gone the other way, which is quite a remarkable phenomenon.

One thing has struck me, and I want to get your response to this. I have spent quite a bit of time looking at the ways in which we could save money in the system. We are facing an ageing population. That alone is going to lead to an increase. Even if we did not improve a single thing, if we changed nothing, it would lead to an incredible increase. I felt getting people into home care and keeping them out in the community longer was a cost-cutting method. The figures I have seen indicate there is such a pent-up demand to get into institutions that what might happen here is we may effectively, at the very best, only reduce the rate of increase.

I am curious to see your figures, if you have done any, that would indicate what is really happening. If you just straight-line this whole thing out, we could wind up with 50 per cent or 60 per cent of the budget winding up in health care early in the next century. Have you done or are you aware of any research that would indicate, if we went heavily into community health home support and at the same time maintained our hospital system--and there are people who are going to need hospitals--what impact this kind of model would have on the total health care budget? I have not been able to find anybody with much in the way of a good model that we could even look at. Have you got one?

Ms. Slattery: I do not know about a model, but I recall in 1977 or 1978 using a study that was done in the Appalachias, which is a very remote, unpopulated and poor area. They found wherever they sent in more doctors, there was an increase in morbidity and mortality. Wherever they sent in more nurses, there was a decrease. That was printed in Nursing Outlook in 1977 or 1978. I will find it. I have it in my files. I will find it for you.

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Mr. Haggerty: It is not a very promising outlook, is it?

Ms. Slattery: It is if you do what we want you to do.

Before you go off this--and I know Arlene has a further answer for you--when I say there are 100,000 nurses eligible to work tomorrow as registered nurses, you need to know that 35,000 of those women have chosen not to work for whatever reason. There are 65,000 nurses in practice; approximately 10,000 of those would be nursing educators, nursing administrators or on the peripheral activities of nursing--detail men for pharmaceutical companies mainly--so there are approximately 55,000 eligible staff nurses, of which 45,000 are in the union.

We have approximately 2,000 or 3,000 public health nurses. The problem with the public health nurses as it relates to their pay and what have you is that they have been whipsawed for years by government, including the provincial government. Some of their money comes from the province and some comes from the municipality. They are not declared essential services and they can strike, which means they can also be locked out. When they go to negotiate for wages, the municipality says, "We cannot give it to you because the province will not." The province says, "We cannot give it to you because the municipality can." You are talking about a dying breed here at a time in the history of health care when they are probably the spearhead of the future.

Interjection.

Ms. Slattery: Yes; exactly right.

Ms. Babad: I am sorry do not have the statistics with me, but one of the things they found in Ontario was that the community health centres--and I mean the nongeneric title now--and the health service organizations have lower rates of admission and readmission to hospitals. So there would definitely be cost savings there.

The other thing is--this is also answering Mr. Taylor's concerns about funding--right now we have a ripple effect. We have people in hospitals who belong in nursing homes, and the cost is much greater. We have limited access to nursing home beds and put them in a more costly environment, the concept being that if you take the people in nursing homes who could possibly go into the community and the people in hospitals going into nursing homes or another type of extended care facility, you would have cost savings there. Certainly, it is well known that Ontario has a high number of inappropriately placed people in our acute care hospitals, which is much more costly.

Mr. McFadden: Such as Alzheimer's patients in active treatment beds.

I have one final point. By the way, I should tell you that the Ontario Road Builders' Association yesterday suggested that we should give less priority to health care and education and more to roads.

Ms. Slattery: I would say that too if I were a roadbuilder.

Mr. McFadden: They only need a couple of hundred million more.

There is one thing I was going to suggest to you. It seems to me we should rename the Ministry of Health as the ministry of illness. Then we could actually create a new ministry, hopefully at no extra cost--we will just take some people out--a real Ministry of Health that would promote good health care and advance what you have been talking about. It seems to me the Health ministry here and in other provinces is really oriented towards institutions and illness treatment.

Ms. Slattery: It is built on the medical model.

Mr. Chairman: It is a good idea to take people out of the Ministry of Health too.

Mr. McFadden: Of course, we could reduce the size of that ministry too.

Ms. Slattery: You boys are in heavy water here. You think you have trouble with the roadbuilders?

Mr. McFadden: I would just suggest to you that maybe we should consider breaking that outfit up a bit. To some extent, what is happening here is preventive health care, and community health is getting lost amidst the huge demands for institutions and various other things to do with the medical care system.

I will not go on any longer. We could spend the rest of the afternoon on this.

Ms. Slattery: I could sit here all day and listen to that. That is grand. It is the best we have heard all week, is it not, Gloria?

Mr. Chairman: I have Mr. Foulds, Mr. Haggerty and Mr. Partington. We have only three or four minutes left. I am going to let it go over by five minutes or so. Go ahead, Mr. Foulds.

Mr. Foulds: Let me just give an illustration, for both Mr. Taylor's benefit and that of the committee, of how I think preventive care would save us tax dollars. I know an 83-year-old woman very well. She happens to be my mother. She lives in an apartment by herself at St. Joseph's Heritage in Thunder Bay. About a month ago, she was found on the floor of that apartment, almost unconscious and not able to move. It was diagnosed as being because of an allergic reaction to a drug she had been given. If there had been a nurse and a doctor available, there would have been no need to do what we had to do, which was call the ambulance, requiring two ambulance attendants to come over to take her to a high-intensive-care emergency ward where she had to stay overnight. She was discharged the next day. How much cheaper it would have been if there had been enough flexibility in the system for a doctor to come and diagnose, reinforce the nurse's diagnosis, and simply have a nurse there with her overnight to make sure everything was fine. It would have been a hell of a lot cheaper.

Ms. Slattery: There is another point there that is not just money.

Mr. Foulds: That is right. I was going to make that point.

Ms. Slattery: What did it cost her in fear?

Mr. Foulds: It would have been a hell of a lot cheaper and a hell of a lot more humane because she would have been in a setting that she knew and was comfortable with and you would not have occupied a very expensive bed in an emergency ward overnight. There are both the cost argument and the humanity argument that could be made, but I cannot speak to the question for you people--

Ms. Slattery: After the "but" comes the good part.

Mr. Foulds: That is just anecdotal but I am sure that happens all the time.

Ms. Slattery: As you were talking, I was thinking of an experience I had with my mother a couple or three years ago.

Mr. Foulds: This is a very independent, healthy woman of that age. The trouble is, since 1971, when I was first elected to this place, we have been talking about putting more emphasis on public health care. Governments talk about it quite regularly. Even the medical profession pays some

lipservice to it, but all we have had in the 15 or 16 years I have been around is lipservice, as your statistics indicate. Aside from taking Mr. McFadden's radical and almost socialist suggestion that we create a Ministry of Health as opposed to a ministry of illness--

Mr. McFadden: It is a very conservative idea. We want to conserve good health.

Mr. Foulds: How do we get not only people like you, who obviously have some knowledge and interest, but the public and governments to accept that idea?

Ms. Slattery: I do not think you would have any problem getting the public to accept it.

Mr. Taylor: Where is your leadership with the accord?

Mr. Foulds: Where was yours when you were government for 15 years?

Interjections.

Mr. Chairman: That is part of the reason they are here.

Mr. Foulds: Do you have some practical suggestions in terms of what kinds of services and what kinds of care could be done through more community-based organizations and through preventive care?

Ms. Babad: I am sorry. Are you asking what kind of services?

Ms. Slattery: What would we want him to do if he had a magic wand?

Ms. Babad: There is the obvious concept of care in the home versus care in the agencies. There is respite care, where people are cared for in the home but they can come to a facility to give the family a break, because that is a problem right now. I know when I worked in emergency, we used to see them over Christmas and New Year's and they would be admitted to hospital. That is certainly a cost saving.

Basically, our whole submission has addressed the expansion of community-based services, client visits, clinics, senior citizens' apartments and retirement homes, palliative care in the home, palliative care teams.

Mr. Foulds: To do that, you are going to have to break the present medical model in Ontario and you are going to have to break the hold the medical profession and the doctors have on the Ministry of Health. Is that going to happen?

Ms. Slattery: I do not know. There are 65,000 of us and 1,700 of them, if you are talking numbers.

Mr. Chairman: You are probably going to have a fight on the steps of the Legislature.

Ms. Slattery: You got that right.

Ms. Babad: It should not only be us. The concept of prevention and expansion of community-based services is obviously of benefit not only to the

nurses of Ontario but to the people of Ontario and ultimately to the Treasury since it should lead to cost saving in the long run.

Ms. Lynn: With some of the suggestions that we have here, I do not think you will have that much of a problem with the doctors in getting them to change the model and look at preventive medicine for Ontario on the whole.

Mr. Foulds: Because they have enough to do looking after the acute care side.

Ms. Lynn: Not only are we overworked and running our tails off, especially in the hospital sector, but the majority of the doctors are in the same boat because their clientele gets bigger and bigger.

Mr. Foulds: I have many other questions, but because of the time I will pass.

Mr. Chairman: It is a very crucial problem.

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Mr. Haggerty: Like other members, I was interested in the preventive programs for community health centres. As I listen to the discussions going on, in particular page 3, it states, "The first priority for the provincial government should be to allocate a greater proportion of resources to public health units, community health centres and all other home-based and community-based health services."

What is your association's feeling on the larger form of government, regional government, where now we are finding that the health councils are centralizing their services? A few years ago you used to have a health centre in each community, particularly in the Niagara region; now we are finding they are being centralized and pulling off some place closer to St. Catharines, the hub of the regional government.

The complaint I get is that the health nurses are not out on the beat any more, that they are spending more time travelling from the central headquarters back to the community that they originally served. For example, in the Niagara region where they have had health facilities through previous health councils, they have shut them down and closed the door. What is your feelings on this matter when you are talking about improved health care?

Ms. Babad: I think that is a great concern. First, in talking in some areas of health care, obviously, there will be a need for some rationalization of services, but certainly when you are looking at community-based services, you have to leave some of them in the community. Instead of closing regional offices, whatever you want to call them, we almost need to look at opening new ones to treat the people and provide the needs in the community.

Certainly, one of the concerns for the remote areas is that most of our public health nurses have to travel a lot. That is a cost right there just in travelling time. That is an added cost. Also, for the people in the community who might have to travel to these clinics or to centres where the services are available, that is a cost factor for them.

I think one can rationalize services but there is a happy medium. In relation to community-based services, we may be going the wrong way.

Mr. Haggerty: Are you a community health nurse?

Ms. Babad: No, we are staff of the Ontario Nurses' Association.

Mr. Haggerty: Are you familiar with the nursing care that is provided to the health services, particularly to the schools? Are the children getting the proper care, the examinations for eyes, hearing, etc.?

Ms. Babad: Many of the programs have been cut, and the public health nurses have told me this. I do not know whether that is rationalization versus cost factors. They have just cut programs in school health. I know they have cut down prenatal classes, for instance. While they may have a few prenatal classes left, the classes are larger and so the parents cannot get the same attention in the class as they would have before they cut them. I have been informed that a number of the school health programs have been cut completely. Well-baby visits in some communities have been cut, as well as well elderly--

Ms. Slattery: Postpartum and antepartum, too.

Mr. Chairman: We are going to have to cut it off.

Mr. Haggerty: Just one final question: Now that the province is heading into paramedics and more in the line of the first aid emergency care program, do you think this is the area the province should be heading for or do you think it should be more in the preventive area? This is going to be a costly item on health care.

Ms. Slattery: If you are talking about return on investment of the province's money, obviously, in cases of trauma where you are going to send a helicopter or an ambulance in somewhere, who is going to say no, we should not have it. That has to be.

Mr. Haggerty: That is right.

Ms. Slattery: But if you talking about overall provincial expenditures in the next 10 years as it relates to the Ministry of Health, you will be saving a lot more money if you put real guns aimed at prevention, early detection, appropriate referral and community-based services.

Mr. Chairman: I think you have hit a very serious, raw nerve with this committee, which every member of this Legislature is very aware of. Just within the last 24 hours, I had to appear before a board of a hospital in my riding which indicates it needs a commitment on $2.6 million by next Wednesday to continue operating. That is the sort of problem that is constant. For that reason, which may not be the best reason, we are obviously going to have to look at a different perspective in health care. I appreciate your coming and drawing to our attention--

Mr. Foulds: On a point of order, Mr. Chairman: Could we ask them, because they have struck a chord, whether they could come back and submit in writing some more specific details of programs and specific budgetary increases that they think would be legitimate in the community-based preventive care system?

Ms. Slattery: We would be happy to.

Mr. Foulds: As we have a month to go, we could have a look at that before we make our final recommendation. That would be very useful.

Mr. Chairman: That is an excellent idea.

Ms. Slattery: We would be delighted to.

Ms. Lynn: We have that information available and welcome the opportunity.

Mr. Foulds: You could talk to Mr. Bond, our research assistant, about it.

Mr. Chairman: Mr. Foulds, that is an excellent idea. I appreciate your bringing that up. I also want to thank you for the memo with regard to Scootamatta Lake gypsy moth program. I do have my application upstairs and my $8 and I will get it in before February 28.

Ms. Slattery: Very good. Thank you.

Mr. Chairman: Mr. Taylor, you do not know where Scootamatta Lake is, do you?

Mr. Taylor: No, I do not.

Mr. Chairman: We are now distributing two documents and you should be looking at the white document with blue lettering only. I do not know why they chose that colour. The other document is from the Council of Ontario Universities, which will be appearing before us tomorrow. They wanted their brief submitted today so that you could read it tonight before you go to sleep.

We have with us the Ontario Federation of Students and the president, Matt Certosimo. You have a number of people with you and perhaps you could introduce them to us and then lead us through your brief.

ONTARIO FEDERATION OF STUDENTS

Mr. Certosimo: Incidentally, we made sure that everything else about our colour co-ordination today did keep all parties in mind. You will notice the reddish tie, the bluish tie and the green one here.

Mr. Ferraro: The University of Guelph is represented today.

Mr. Certosimo: Yes, that is right, the agricultural school.

Mr. Chairman: The president is from Wilfrid Laurier University, Mr. Ferraro, so I think he is worth listening to.

Mr. Certosimo: On my right is Hugh Wright, a member of our board of directors. He is from Queen's University.

Mr. Chairman: That is a good one too.

Mr. Certosimo: On my left is my successor, Sheena Weir, who will be taking over our federation as chairperson in June. She is from Laurentian University, so all regions of the province are covered. I am living in Toronto right now, but I went to Wilfrid Laurier in Waterloo.

I guess I should begin by thanking you for the opportunity, Mr. Chairman and members of the committee, to speak to you today. I was talking with the clerk on Friday and it was quite a surprise that we would have the opportunity

to present this so quickly, so we put together a package of information for you instead of a brief. For that I apologize, but I hope the package will be of use to you. I also hope the brief we will be presenting to the Treasurer (Mr. Nixon) by March 6--which I think was the date we were given--which we will also distribute to your committee, will be in a little more detail and be of benefit to your deliberations.

Mr. Chairman: I apologize if we sprang this on you. I know the federation was asking many months ago about when these hearings would occur. I am sorry we did not get back to you.

Mr. Certosimo: No, that is fine. I say it more by way of apology than by way of criticism.

In any case, there are three items we wanted to touch on prior to responding to questions. The first one is the issue of quality, the second one is the issue of accessibility to post-secondary education, and the third relates to both items and that is the matter of differential fees for international students. That relates both to the quality of our education and accessibility. We want to touch on all three of them as they relate to your committee's deliberations with regard to financing specifically.

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Before I ask Sheena to talk a little about the funding side or the quality side, seeing as this is finance, we thought we would start with financing. I wanted to tell you a little about what we are going to be doing over the next two months. The first page of the package we presented to you is headed, "Youth Asking Questions: Statement of Purpose."

It explains essentially that we will be spending the next two months touring the province meeting with a number of people in many of your ridings, St. Catharines, Waterloo, Guelph, Lakehead or Thunder Bay, Sudbury, etc., and we will be speaking with members of the chambers of commerce, labour councils, social planning councils, teacher-parent associations at the high school level, school board trustees, faculty, staff and administration on campuses at both universities and colleges with the purpose in mind that we are going to be trying to achieve an understanding of what people see as the role of education in the 21st century.

We see a number of you and your colleagues speaking about the 21st century and our goals as we move towards it, but it is a very foggy vision this 21st century, and seeing that in my case I will be 35 when we enter that millennium, I guess, or complete the second millennium, we are concerned.

Mr. Chairman: I will be 63.

Mr. Certosimo: No generation gap there.

The main things that we feel need to be discussed in terms of themes are quite straightforward and many of them we have discussed with you over the course of the past several months. These are a number of the issues I know your committee has discussed and certainly the report from the Treasurer, the service sector report by Mr. Radwanski and some of the others all indicated that there is a tremendous shift in our economy as we move away from the resourse-based economy. As such, there is going to be a need for a more highly educated population. Dryden spoke about the importance of education as it relates to employment, and certainly for a number of us, particularly for

those of us in school who are considered youth, there is a grave concern about what the future has in store for us in terms of the economy.

I do not feel there is any need to go into any more detail with you in terms of our introduction, but at this time I will ask Sheena to talk a little about some of the funding specifics that we had in mind for today's presentation.

Ms. Weir: Briefly, I would like to draw your attention to the "What Others Say" sheet in your package. Basically, it outlines that the three parties are in agreement, that they are all committed to quality and accessibility of post-secondary education. With those things in mind, people like the Ontario Council on University Affairs have been lobbying for an 8.9 per cent increase, where we received a 7.3 per cent increase. It is not enough. We still have a major problem with operating budgets, etc.

I have one particular example of what is going on right now, for instance, in the college system at Cambrian College in Sudbury. They are talking about cutting teaching hours from 25 to 22 hours a week. This translates to approximately 10 weeks over three years of a diploma, which is a large amount of time taken from the students' course of study. It also means more independent work is expected of students and they are very worried that their careers will be affected as a result because their education will not be as credible as that of one coming from another college.

Further, the reason given for these cuts was that in order to pay teachers $100 or whatever dollars per hour, if they cut three hours a week, they could effectively upgrade their equipment and spaces, etc. and therefore increase the quality of their education. At the same time, it seems rather contradictory when the students are going to be receiving less teaching. These kinds of cuts in finances are very traumatic for students who have to go out and compete with less education.

These are some of the things you are facing with the whole funding issue right now, a lot of cuts in programs and hours and in the general operating budgets in universities. I would like you to keep these in mind as Matt and Hugh point out some of the other areas of quality and accessibility.

Mr. Taylor: By way of clarification, are you saying the standards are being lowered?

Ms. Weir: In the college?

Mr. Taylor: Yes. You also referred to the university.

Ms. Weir: Yes, generally. For instance, with this case with the standards of teaching, what the board of governors has mentioned is that perhaps there would be innovative teaching methods, innovative never being described or really expanded upon.

Mr. Taylor: You were talking about inferior students coming out of the system.

Ms. Weir: It would be inferior. For instance, this is specific to Cambrian where, if they went from 25 to 22 hours per week, losing 10 weeks over the course of their education, then other community colleges would be providing an extra 10 weeks of study over a three-year period and, therefore, it would be a deteriorative status they would be having.

Mr. Certosimo: One of the ways of measuring quality is by contact with the professor or the teacher, depending on the system. There is going to be a limit in access in universities. For example, we talk about student-teacher ratios having dramatically increased in the university sector over the course of the last 10 years because sizes of classrooms have had to be increased in order to take into account the lack of funds available for buildings and the hiring of new teachers, etc. In the college system, the effect of the decreased funding over the course of the last number of years has led to an attempt to decrease the number of hours that one would have access to and increase the number of students in each class. That is one of the ways that we as students can measure quality of education.

The second item we want to touch upon, and we do want to move through this general introduction with you relatively quickly so we can talk about whatever issues are on your mind, is the issue of accessibility. There are a number of documents in here that I want to point you to, but before doing so, the issue of accessibility is one that we are going to be particularly trying to define over the course of the next two months.

As I told you, we will be on this tour of the province and we will be concluding the tour with a symposium in Toronto. We have for this tour and for the symposium an advisory committee that includes John Rankin, who is the vice-president of human resources for Northern Telecom; Gord Wilson, president of the Ontario Federation of Labour; Dr. Alvin Lee, president of McMaster University; and John Starkey, president of the Ontario Confederation of University Faculty Associations, who I understand was here yesterday, all sitting with myself in an attempt to try to define some of these words and maybe provide a little bit more of a consensus in terms of some of the different sectors. That will be sort of the conclusion of our tour.

As I say, one of the main issues we are going to be trying to deal with is the very foggy issue of accessibility. What are our goals as a society in terms of accessibility and what does accessibility mean? How does that translate into the level of cost of education that students are expected to bear? What does that mean in terms of tax dollars that we expect our society to pay in order to fund the system? What does it mean in terms of the future, in terms of our goals as a society, because education is obviously defined by the needs?

In specific, studies have shown there are really two kinds of accessibility or two barriers to accessibility. One is socioeconomic, which is in relation to attitudes, and the second is in terms of cost of education. In many cases, they go hand in hand.

In 1980-81, a federal-provincial task force on student aid found that, at that point, the issue of the debt that students were having to take on in order to complete their education, because of the cost of the education, had not yet become a major issue. They suggested no major changes to the student assistance program in Ontario or any of the other provinces that they were reviewing, but they did say there were three areas that had to be watched very closely. They were tuition, the cost of living and demographics--in other words, the effect of these two cost areas on the lower participating groups, if I can use that term, in our university-specific sector.

I want to bring that out because we are finding today that the issue of debt that students are graduating with when they finish university is becoming almost a crisis situation for a number of students. Recent statistics that we have been able to gather show there are an awful lot of students who are in

the $5,000-to-$10,000 range of debt and many students above that. For a number of students, they are graduating with such a debt and with bleak employment opportunities that, as one of the first acts of their post-graduate career, they are forced to declare bankruptcy or to default on their loan. Certainly, that is not the sort of thing we really want our young people having to do as a first act of graduation.

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Specifically, tuition as a cost has dramatically gone up over the course of the last five years since 1980-81. The federal-provincial task force noted that is one area that needs to be watched very closely. I have a statistic page on the increases in tuition at four of the universities that I know four of the committee members will be most interested in because of their constituencies. I did not know Mr. Partington would be here or I would have put in Brock as well, but I think it would be safe to say Brock is very similar to these.

We know for a fact that in September 1987 we are going to see an increase of nine per cent in tuition; four per cent is an inflationary increase that was announced in November and five per cent is to take the place of the eliminated extra billing charges that students pay, known as incidental or ancillary fees. Portions of these fees were eliminated, but of the ones that were not eliminated, we know many institutions plan major increases in these fees in the next little while, particularly at the University of Waterloo, which I know Mr. Cooke will be particularly concerned about. The co-op fee is expected to increase from about $120 to $400 or more over the course of the next couple of years, unless the Minister of Colleges and Universities (Mr. Sorbara) brings about certain borders for increases in the next little while.

In terms of cost of living, I think the best example of the cost students face in the cost of living--I do not have a page on this for you in your package, but I will read for you--is perhaps the residence rates, the housing costs students pay when in residence. Over the course of 1982 to 1984, residence rates went up at Guelph by 28 per cent, at Lakehead by 10 per cent, at Waterloo by 12 per cent and at Laurentian by 11.9 per cent, all major increases in the cost of living associated with going to school.

The third area that was suggested to be of concern to public policymakers with regard to student assitance was the effect these increases had on different demographics. For this, I would like to point you to two pages. One is entitled Memorandum, near the back of the package, and the other one is entitled Total Student Loan Indebtedness.

The Total Student Loan Indebtedness package is from the Ministry of Colleges and Universities. You will note on the second page that independent singles, single-parents and independent married people, the three groups the federal-provincial task force said were of particular concern, have a very high percentage of their population in the $5,000-to-$10,000 range.

On the Memorandum page, you will note that statistics gathered from the Secretary of State very recently show that the average debt load in Ontario has gone up, just in the last three years, from $3,700 to $5,300. Since 1980-81, that would be compared to about $1,500 in debt as an average debt that people are leaving school with. You will note that the default rate and the loss rate--the loss rate being to the government and the default rate being obviously the responsibility of the students--have gone up dramatically as well over the course of that three-year period for which we have statistics.

I could go on an awful lot about those items, and maybe I should during questions and answers. There is one last issue we want to talk about before questions, and that is the issue of differential fees for international students.

Mr. Wright: All of you will no doubt be aware that foreign students in Ontario and in most provinces in Canada pay a considerably higher rate of fees or a considerable surcharge on their tuition fees. That has been a matter of some concern to the Ontario Federation of Students since it was first instituted and it continues to be a concern to this day. There has been a lot of talk today and previously from public policy setters in Ontario about the fact we are moving into an information society, that we are moving into a knowledge-based society and that our future really depends on our ability, in many senses, to trade or to interact with other countries in the world.

Given that trend in discussions among the politicians, we find it surprising that the issue of differential fees for foreign students has not received a higher profile in this building. In the last throne speech in April 1986, the Lieutenant Governor referred specifically to international competitivenes. We believe that bringing foreign students to Canada and having them interact with students on campuses in Ontario will increase Canadian opportunities in the future when these foreign students return to their countries and bring with them a familiarity with Canada and some contacts with Canadians.

Another aspect to consider with this whole issue is the quality of research that is undertaken at our universities. The number of foreign students in Canada and Ontario is very much tied up with this. Foreign graduate students participate in our research efforts by assisting professors in their various fields. The decline in foreign students that has occurred since the differential fees were imposed were substantially increased from 1982 is of great concern. We have had reports from our members that the quality of research at the universities is suffering because of the decline in graduate foreign students.

The final point I would like to bring out under quality is simply the issue of campus life. University, college and the entire post-secondary system represents a unique opportunity for the interchange of ideas and to broaden one's horizons and perspectives. Having foreign students on campus increases students' opportunity to do this. In the end, the people who will benefit will be all of society because the people coming out of the universities will have a broader understanding of the issues around the world. That, of course, would be something that would be difficult to obtain with the current decline in foreign students.

Just to give you an idea about some of the numbers we are talking about, in the last five years since the differential fees were substantial increased, the number of students has decreased by 7,000. They used to constitute 10 per cent of the enrolment in Ontario. They are now less than five per cent. When asked about this question, the Minister of Colleges and Universities in a speech to the membership last month said that this is a $50-million problem, to which he does not have a solution.

As students, we were quite disappointed by the limited perspective that is implied by that statement. I have outlined a number of the benefits under quality: quality of our research efforts, quality of campus life and our future trade opportunities. Something else that should be considered is that various estimates have placed the value of foreign students in Ontario for the

amount of money they bring into the economy every year at $259 million. To say there is a $40-million problem from the imposition of the rollback or abolition of differential fees only says one side of the argument. People should really consider both the economic and the academic benefits that are provided by foreign students. We would urge the committee to consider rolling back differential fees.

Mr. Certosimo: That is the extent of our introduction.

Mr. Chairman: That begs a lot of interesting questions. I note Mr. McFadden taking a lot of notes for question period. Mr. Morin-Strom, Mr. Partington and Mr. Ferraro also have questions.

Mr. Morin-Strom: Yesterday we heard concerns about the differential fees on foreign students as well. I think it is a very valid concern. How many students were you estimating roughly we have lost as a result?

Mr. Wright: Enrolment declined by 7,000.

Mr. Morin-Strom: How much is the differential fee?

Mr. Wright: It is $4,000 or $5,000 compared to the $1,500 for Canadian undergraduates.

Mr. Morin-Strom: It does not sound like $40 million or $50 million.

Mr. Wright: No. That would be for the abolition of differential fees for all international students in Ontario.

Mr. Certosimo: I see your point. One argument that can be made is that with the loss of $7,000 over the course of the last five years, the so-called increase in revenue that would be created by the increase in fees for these students has probably been offset. As to the exact numbers, I cannot do it in my head, but there certainly is an argument in both a microeconomic and macroeconomic sense that suggests the introduction of differential fees has been a loss to the economy and the institutions in terms of revenue.

Mr. Wright: Unfortunately, saying it is a $40-million problem does not demonstrate a lot of understanding of the nature of the problem.

Mr. Morin-Strom: I am one who was fortunate enough to be able attend schools that have tremendously diverse student populations with a high percentage of foreign students. There is a tremendous benefit to a university campus to having a diversity of student body. We should be encouraging as much interchange of students across Canada as possible, certainly from other countries coming into the country. Foreign students do bring an insight and a perspective different to those of students who all come from from one particular area.

1530

One of the issues you brought up was the point you made about our moving away from a resource-based economy towards a service economy in the future and that was going to result in greater needs for better educated people. I am not convinced that is the future of Ontario. I hope it is not. Perhaps what is needed is clarification of what a service economy means. If it means McDonald's restaurants, I am not convinced that is going to be the area that is going to provide the jobs and the well-paying jobs that we want in the future.

Mr. Certosimo: Certainly, you do not need a higher education for that.

Mr. Wright: When we say knowledge-intensive, that sort of rules out McDonald's.

Mr. Morin-Strom: That is what you are talking about in terms of the service economy.

Mr. Certosimo: I think the term "service economy" is perhaps used as a misnomer in that case, but what we are getting at is that the emphasis on resources as opposed to knowledge in a knowledge-based economy is really what we are getting at as opposed to necessarily services in the tertiary sense or the McDonald's service sense. What we are getting at is that knowledge will become much more important in terms of what is sold. The best examples you can use just off the top of your head are things such as the number of management consultant firms that are cropping up and selling their services to much of the developing world. This is becoming more and more important to our economy.

Mr. Morin-Strom: My belief is that for decades to come the heart of the Ontario economy will continue to be the production of goods. It may be more of a manufacturing economy than a resource economy, but as the driving force in our economy, I believe most of the jobs for a good period of time are going to come from the production of goods rather than the production of services.

One of the directions the province has taken is to propose centres of excellence heavily oriented towards applied research, stressing the interconnection between universities and the private sector. We heard some concerns about that initiative yesterday. I wonder if you have a reaction to that proposal.

Mr. Certosimo: In your package you have what is entitled Briefing Notes for the Premier's Meeting. That is because right after we leave here, we have a meeting with the Premier (Mr. Peterson) and we are going to be raising a number of concerns about the direction of the Premier's Council, which are very similar to the concerns you were made aware of yesterday by the Ontario Confederation of University Faculty Associations.

Our concern is certainly not with excellence. I think it would be safe to say as students that the quality and the excellence of the education and certainly the excellence of the research as graduate students are a very important aspect of our academic careers obviously. What we are concerned about is the effect the development of centres of excellence will have, not on just the nature of research, because certainly when you get into applied research and move away from the pure research, some of the opportunities for the development of knowledge for society is limited by the buck, by what can be turned into saleable results or products. Obviously, we have that concern.

As we move towards centres of excellence and as we move towards--which also can be taken from that direction--more of a rationalized system where the different institutions around the province would focus entirely on their area of excellence, we also have a concern that students from different parts of the province, particularly the north, are going to be adversely affected in terms of accessibility to education on the basis of geographical accessibility. A lot of the places that presently have an opportunity to provide a relatively good education in a number of different areas, because the institutions throughout the province generally have a good universal

education or strive for it, would be limited and people who would want certain aspects of arts degrees and so on would have to go to other parts of the province, and that could limit their opportunities in terms of geographical accessibility. Yes, it is a grave concern of ours.

Mr. Morin-Strom: Do you have any recommendations for how the province should be encouraging research, pure and/or applied, as a counter to the centres of excellence proposal?

Mr. Certosimo: To be honest with you, we have a number of questions about exactly what the centres of excellence are going to imply, and they are listed for you in that page or three of notes. At this point a lot of it is still relatively foggy to us, and to jump entirely to the conclusion that it is not going to be--

Mr. Morin-Strom: You have questions. You do not have a specific proposal for what you think should be done?

Mr. Certosimo: First, just as a wish list, obviously we want research funding to increase; that would be provided to the universities to determine the direction of pure research on their own. It is the involvement of the private sector that, without certain guidelines, can have the effect of making the research to apply to the point were pure research is not able to. In other words, if research is going to be entirely on the basis of private sector-public sector co-operation, the nature of the research can be compromised.

Obviously, our number one suggestion would be improved research funding through the different research councils at the federal level and then through the different research initiatives that can be started at the provincial level and providing them to the universities to allow them to determine their own directions. That would be sort of a premise that we would work from.

Mr. Morin-Strom: And not force the universities to tie into the private sector research?

Mr. Certosimo: We recognize that private sector-public sector co-operation can have its benefits as well; our concern is that until we see certain guidelines which ensure the private sector is not dominating the institutions' research and dominating these different areas of excellence, we are sort of looking for answers as opposed to making conclusions.

Mr. Morin-Strom: Finally, there is this one interesting document here, page 15 of something or other. It is a table; I imagine it is some type of matching up of numbers of people from various income groups versus the percentages that are getting university educations from those kinds of families. What do the various columns mean?

Mr. Certosimo: That is page 15 of a study done by Dr. Anisef, which he presented to our general meeting in January. For those of you who are not aware, Dr. Anisef is one of the foremost researchers in the field of accessibility to post-secondary education.

Mr. Morin-Strom: I am looking at table 1.

Mr. Certosimo: Yes, I think that is what it is called. Mr. McFadden was one of the people who had the opportunity to hear Dr. Anisef's presentation, and as a result, I am sure the Progressive Conservative Party is going to adopt accessibility as a mainstream part of its policy in the upcoming election, whenever it may be.

Mr. Foulds: You overestimate Mr. McFadden's influence in the party.

Mr. Certosimo: In any case, the document before you demonstrates that in terms of representation in relation to population, people from parental income brackets below the average income for a family are underrepresented. You can tell that by the percentage number below in brackets. In other words, Dr. Anisef explained that 1.00 would be perfect representation in proportion to population and anything below that would be representation below proportion to population and would obviously represent a problem with accessibility to people from lower-income backgrounds.

Obviously that is a concern we have and one of the reasons we have addressed the issue of debt load and the issue of Ontario student assistance program reform. Our feeling is that is one method of attempting to overcome the barriers that these people are obviously finding.

Mr. Chairman: We are going to have to move on.

Mr. Morin-Strom: You have still to explain what the numbers represent. The 1981 university figures that add up to 100 per cent, are they the percentages at university?

Mr. Chairman: Perhaps you can ask him privately afterwards because we have only a few more minutes and I have three other questioners.

1540

Mr. Ferraro: Mr. Chairman, I have to leave and I have one quick question.

The question I have specifically is this. The average debt load for a student now is somewhere around $5,300.

Mr. Certosimo: That is correct.

Mr. Ferraro: In your opinion or in your federation's opinion, is the difficulty the fact that students, according to the present regulations, are unable to--obviously if they cannot get jobs they cannot make any payments. Are the regulations governing repayment too stringent, or are you saying that in effect the amount of loan that a student has is essentially too high, or both?

Mr. Certosimo: I think it is a combination of both. Our feeling is--and for your benefit I will be brief--that over the course of the 1978-79 to 1983-84 period, the average loan went up by about 120 per cent whereas the average grant went down by about five per cent. In other words, the system moved away from providing grants for those people in need, from lower-income backgrounds who required assistance, to providing them with loans.

Furthermore, there is a grant eligibility period cap of eight terms or four years; so for those people from the lower-income backgrounds who want to go on to a professional or graduate program, the remaining form of assistance they will have will be in the form of a loan of $5,000 or $6,000 a year.

Finally, six months after graduation, your loan begins to accumulate interest at the market level, which of course is fine at present--well, not fine, but it is certainly better than it was four or five years ago--and that obviously will have an effect on the accumulation of debt, particularly for women, who as we know are traditionally paid less and as a result, their debt would accumulate faster.

For example, since you will be making recommendations to the Treasurer (Mr. Nixon), maybe you can remind him of the story of a constituent of his who came to him. I know the story because he told it publicly. He had a wife and two kids, whom he was supporting. He was making about $20,000 a year; it was his first job, and that is probably a natural beginning salary. On top of paying all the bills, he also was expected to pay $142 or so a month on his loan. Because of the amount of he was making, he was expected to pay that amount, and there was no way he could get interest relief, which is the only form of relief in these cases. In that situation, $142 a month is a lot of money, and it is those people who are ending up having to default and start their careers in bankruptcy, and that is obviously a major concern to us.

Mr. Wright: A payment of $142 a month is not unheard of either. When you look at the market interest rates, it would not take much of a debt to get $142.

Mr. Partington: I have a question on accessibility. I was asking a question of Mr. Starkey yesterday, and he indicated that in 1969 roughly five per cent of high school students attended university whereas today that percentage is about 15 per cent. He seemed to indicate, based on those figures, there is tremendous access to university education.

Mr. Morin-Strom: I think 15 per cent is an embarrassment.

Mr. Partington: It is a 300 per cent increase over 1961 levels.

Mr. Morin-Strom: Yes, but what have other countries done?

Mr. Partington: That is not the question. I was asking a question, not commenting on whether it was embarrassing.

Mr. Certosimo: I will say that. Do not worry.

Mr. Partington: We see in our society today that many university graduates--lawyers as an example--graduate and do not have jobs, and yet we see having to go to Europe to fill many high-paying skilled jobs. The question is what should be done to address that. Are we overeducating great numbers of our people? Should there be more of the Waterloo system? What should be done?

Mr. Certosimo: There are a number of different ideas floating around right now about how to respond to that exact issue. In fact, Walter Pitman, the president of the OISE, speaking at our general meeting in January, suggested what we needed was a polytechnical system similar to what they have in Europe, and certainly Dryden's report suggested that would be the sort of thing to fill the gap between community colleges, which provide short-term, labour-related skills development, and universities, which are intended to provide a broader kind of education.

We would hope this would increase participation rates, because while an increase from five per cent to 15 per cent in participation rates suggests a healthy increase, the statistics in table 1, which I was attempting to explain--I guess I did not do a very good job--show that while there has been an increase in the number of people going, it is not from all economic backgrounds. This means that more people are going because our society is becoming more aware of the importance of higher education. The polls show that about 65 per cent of our population believes that post-secondary education should be a high priority in funding. It is not an equally distributed participation increase.

Mr. Partington: That is not strictly related to money, surely.

Mr. Certosimo: As I said earlier, there are two barriers to accessibility, according to most researchers. Dr. Anisef is, as I say, foremost in his field. One is based on socioeconomic background and the attitudinal and motivational effects of being from a lower-income family, parental role models and so on, and the other is cost. Dr. Anisef suggests that the cost factor does fall back into affecting those attitudes of people from lower-income backgrounds.

Mr. Taylor: IQ does not even have a role in this?

Mr. Certosimo: He does argue that if you have the smarts, by and large, you probably will go ahead; but at the same time he points out that women with marks equal to men from roughly the same background have a lower participation rate. So even though marks play a role, a lot of society's attitudes also play a role, and a lot of those attitudes are affected by the cost factor. In other words, in the ivory-tower mentality, how much it is going to cost does play a role in affecting people's motivation and expectations.

Grades 8 and 9, apparently, is the time when a lot of these things are developed. Quite often people from lower-income backgrounds are not encouraged to go on because the parents from a lower-income background, who did not go themselves because they could not afford it, do not necessarily encourage their children to go; they do not feel as though they can afford it, nor can they as a family afford to send them.

Mr. Partington: I have one further question on that. Mr. Morin-Strom suggested it; so I will ask it. He suggested that 15 per cent is an embarrassment. Do you have figures as to what should be an appropriate percentage for high school students attending university? Is there a figure?

Mr. Certosimo: I do not know. I guess I would argue that when I see that 15 per cent of our high school graduates are going on to university, and I look at the economic background of these students in proportion to our society's economic profile and see that people from middle-income and lower-income backgrounds are going less, then my first response to that kind of question is that 15 per cent is obviously not representative of our needs in society, because there is an economic background that is not benefiting from the system for one reason or another.

Mr. Partington: If that is because of money, I would agree with you.

Mr. Certosimo: It is partly because of money, and that is the argument that a lot of researchers are making.

Mr. Chairman: It must be because they are probably a lot lower than in the United States or Japan.

Mr. Certosimo: Yes, they are.

Mr. Ashe: Once you roll in the college system, though, what does that percentage go to? Not every jurisdiction has the same degree of penetration of the college system that we do in this jurisdiction.

Mr. Certosimo: I think Dryden said that 70 per cent of our population never goes to post-secondary education.

Mr. Ashe: It would be an equal number again is what you are saying; 15 and 15?

Mr. Certosimo: Yes, and I think the point that Dryden made, in his report anyhow--certainly it echoes our belief--is that if presently X number of people are losing their jobs because of plant closings, the need for retraining in a lot of different sectors and so on, one of the ways we are going to overcome that unemployment problem is by ensuring that people have the opportunities to become educated, and that means not just 30 per cent of our youth but as broad a portion of that group as possible. As to whether 30 per cent represents the amount of the need out there, Dryden argued it does not.

1550

Mr. Chairman: Finally, Mr. McFadden.

Mr. McFadden: I know the time is running late. Matt and I and the federation get together fairly regularly; so I do not know whether I really have to go on at some length.

Mr. Chairman: Is that right?

Mr. Certosimo: We can go five more minutes.

Mr. McFadden: I just had two or three things; one is with regard to the premise in your paper Youth Asking Questions, Statement of Purpose, where you talked about the service-based economy. I know you had an exchange earlier with Mr. Morin-Strom. I must say that I subscribe to the OFS statement of purpose. I think Radwanski's study, among others, indicates that. In fact, he was a witness last week, as you will recall, Mr. Chairman.

One of the things we did review was the type of job in the service sector. While some of them do fall in the McDonald's, if you look at it, a very large preponderous of service sector jobs are in banking, management consulting, law, medicine, a whole range of things--

Mr. Wright: Politics maybe?

Mr. McFadden: Politics.

Mr. Certosimo: Only the best.

Mr. McFadden: That is right. We are good suppliers here.

Mr. Certosimo: The best and the brightest.

Mr. Taylor: And the poorest.

Mr. McFadden: I think your point is well taken, because in that kind of situation, a lot of the jobs that are coming into view in the service type of economy will require a higher education for Canadians to move into. I thought you made a very good point.

One issue you raised was the area of specialization, and I want to review that very briefly with you in terms of budget planning. I understand it is the OFS's position that government itself should not be choosing and targeting funding for certain specialties but rather should be encouraging the universities to get on with developing disciplines and so on that enhance

analysis, power of thought, creativity and so on rather than designating certain disciplines. Is that a fair statement of where you would stand in terms of this whole issue of specialization, targeted funding and so on?

Mr. Certosimo: Yes. That represents our position well. It is not to suggest that we do not believe money should be provided to ensure that there is excellence in research but that a lot of the direction for that research should be directed by the institutions themselves so that they are free and autonomous from government in determining the--

Mr. Taylor: Or the private sector.

Mr. Certosimo: Or the private sector. The institutions themselves, without too much direction from the private sector and from government, should be responsible for directing the research themselves in order to ensure that the research is pure research.

Mr. McFadden: What about the emphasis put on what some people call hard sciences, the engineering and other faculties, which are important, as against the arts, sociology, history, political science? Have you any concerns in relation to the kinds of relative priorities given to those areas?

Mr. Certosimo: Undoubtedly. One of the things we are particularly concerned about when specialization is discussed is that particular institutions will become engineering-mathematics institutions and other will be become history-English institutions.

Mr. Wright: When that happens, I think it is fair to say that you have a training centre; you do not have a university. You just have a training centre.

Mr. Certosimo: Obviously, one of the benefits in being in the English at a university is that your analysis in terms of English is within a context that is influenced by the other faculties and departments. But if you are in a training centre, the breadth of your understanding not only will be dictated by the limited impact of international students but also will be limited to your own discipline, your own faculty, and you will be very streamlined. One of the benefits of a university system, when it was created originally, historically was to broaden the horizons of society generally, to make people more tolerant and so on. That would not necessarily be achieved.

Mr. McFadden: One issue you raised was the rising level of indebtedness of students. I wonder whether you have any breakdown on whether students from specific schools or regions wind up with a higher debt load than others.

Mr. Certosimo: Yes. People from the north proportionately are on student assistance higher than those from the south. For example, at Laurentian University, Sheena's institution, 52 per cent of the students there receive some form of student assistance, whereas at Queen's, say, it is 30 per cent.

Mr. Wright: It is 23 per cent.

Mr. Certosimo: It is 23 per cent. The average in the province is about 33 per cent or 35 per cent.

Mr. McFadden: Is that a function of the cost of getting to the university, travel costs and other things, or is it a function of the socioeconomic groupings that the students of Laurentian come from, or both?

Ms. Weir: I would say more the socioeconomic groupings, particularly in Sudbury. The people who are attending the university would not be as able to pay the funds, so they would get a higher debt. I participated in a clinic for the Ontario student assistance program. In the case of some of the people coming for help, for instance, one woman had a $5,000 debt in her first year. She is considering not continuing, because at the end of a four-year program she will have a $20,000 debt. These are things they cannot even consider continuing with; so accessibility is broken down completely.

In the north, it is a very real problem. Mr. Morin-Strom probably knows in Algoma it is the same sort of thing. Lower economic groups do not have the opportunity to go. Perhaps the ones that do are just getting into that area, so you can imagine how many are being left out entirely, with the idea of trying to handle a debt load like that.

Mr. Certosimo: Mr. McFadden, when the whole goal of the OSAP system was changed from a loan-first to a grant-first system in 1977, Dr. Parrott was the minister and he restated Mr. Davis's position on accessibility, that every qualified individual in the province who wanted to go to university should not be prevented from doing so by financial need. That was one of the reasons the OSAP system was created and that is why it shifted from a loan-first to a grant-first system.

Our concern is that under the present structure of the system and the emphasis on loans, the very group that was supposed to be served by OSAP, not the people from the higher or middle-upper income brackets but those people from the middle and lower income brackets who do have the motivation to go are being expected to take on pretty hefty loads in order to complete their education.

Mr. McFadden: Mr. Partington raised the point about the percentage of the population going to university. You and I have talked about this and I have talked to Paul Anisef as well about the factors that lead to this particular page here. One of the impressions I have, and I know Dr. Anisef has, although it is not particularly quantified, is that a lot of the students who do not get into university but who might qualify are out of the race earlier on in their education.

One of the initiatives we have to undertake and probably the biggest initiative we could undertake to change some of this at least would be to motivate students earlier on in their education to want to achieve a university education and to convince them and their families that this is something they should aspire to and can aspire to.

Mr. Taylor: Maybe the career counselling people in the high schools too.

Mr. McFadden: It probably starts out in junior high.

Mr. Certosimo: Dr. Anisef argues that it is during grades 8 and 9 when a lot of the motivational decisions are made by youth. You are absolutey right. Obviously, Dr. Anisef's position on this is one we share.

There are two barriers to accessibility. I could not come into this room with a straight face and tell you to get rid of tuition fees, and therefore everyone would go. We do not believe that. We know that is not necessarily the case. We believe the cost factor--and certainly Dr. Anisef agrees--is a major one with a large portion of the population and does have an effect on the motivational attitudes of young people in lower income families. Separating

the two, which Dr. Anisef does somewhat, suggests there is a need for us to reach into the younger grades and prove to people not just that they can have the motivation and expectations to go, but in terms of cost, one way or another they will be able to afford it; we will have a system in place that will ensure they can.

If their families say, "There is no sense even thinking about it; you should go out and get a job, because we are not going to be able to afford putting you through," the response and the guidance that should be provided at that level should be, "No, the system is not that expensive because of the OSAP system, which is such that we provide you with the assistance you need to go through," or, "The costs are being kept down by government because of its realization of the importance of accessibility."

1600

Mr. Foulds: But they do not have to do that.

Mr. Certosimo: Yes, I recognize it. Those are two things that need to be done.

Mr. Foulds: I have a horror story where a young man whose family was on social assistance did go through, got a masters, wound up $20,000 in debt and was earning $18,000 when he got out. If you are going to make that kind of encouragement, then government has to give the guarantee that a young man in those circumstances does not wind up $20,000 in debt.

Mr. Certosimo: I guess I was implying that this group was enlightened enough to want to do something.

Mr. Foulds: I would not guarantee that.

Mr. Taylor: Do you have any studies on the number of students who, because of the choice of subjects they take in secondary schools, dead-end themselves for a variety of reasons in terms of access to university as opposed to access to a community college? They find out that they have the wrong subjects and then have to repeat. They say they are not going to bother doing that. They will go somewhere else. I am just wondering. There may be other reasons for students not going to university.

Mr. Certosimo: There are always going to be individual factors that affect someone's educational or academic aspirations. We do not suggest that everybody should go to university or college.

Mr. Taylor: I am not saying that. I am suggesting there may be other reasons for students not going to university. It may be because of the multiple choice there was. Without thinking it through when they start off their program in secondary school, they end up in the last year, grade 13, finding out they cannot get into what they want in the university.

Mr. Chairman: Mr. Taylor, could you sit towards the microphone, please?

Mr. Certosimo: I am not familiar with any studies.

Mr. Chairman: They may be available through the Ministry of Education.

Mr. Certosimo: It is not an issue that has come up an awful lot with our membership. We do liaise with the Ministry of Education and it is not an

issue that has been brought to our attention regularly by them either. I assume it does happen from time to time. Certainly, people going into the arts stream and then deciding at the grade 13 level that they really want to go into engineering might have some difficulty. If you did not take French throughout high school and you really wanted to go into languages or something, you might have some difficulty, but by and large, it certainly is not an issue that has been brought to our attention as being the main one.

Mr. Morin-Strom: Is the difficulty that the general level courses do not qualify you for university? You have to take advanced level high school courses. To me, even the connotation that you have to take advanced level courses in order to qualify for university is nonsensical.

Mr. Certosimo: Certainly, there are a number of problems with the new guidelines of the Ontario Schools, Intermediate and Senior Divisions program.

Mr. Chairman: It is a problem that has probably been hurdled by the time your constituents are your constituents.

Mr. Certosimo: By and large.

Mr. Chairman: This has been a fascinating and valuable interchange in so far as the committee is concerned. I wish you luck with the office of the Premier as well. Perhaps we can both come at the Treasurer from different angles.

Mr. Certosimo: By way of conclusion, obviously, we feel there is a real need and we urge this committee to consider some long-term funding recommendations not just singular annual increases, etc., to give some security in terms of funding over the course of the next five years. I know the Ontario Confederation of University Faculty Associations suggested $500 million, and we would agree that reaching for first in the country, as a province, would be a healthy direction to go in.

We would also urge you to consider the cost benefits of an all grants or a more highly grants student assistance program. From looking at the statistics that were considered in 1980-81, it might not cost the provincial government too much more to move away from a loans emphasis towards a grant system because of the decreases in defaults, interest and administrative costs, etc.

Those are two things, obviously along with the rollback in differential fees. Those are the three things we would urge you in terms of financing in Treasury for you to consider.

Mr. Chairman: Message received.

Members of the committe, we are going to adjourn until about 4:25 p.m. At that time, we will have with us Don Black, senior budget adviser, and Ron McGinley, assistant director of the economic policy branch. I understand copies of the document will be tabled.

Clerk of the committee: Not immediately.

Mr. Chairman: I guess not immediately, but in any event, they will be here with us. We would like to know how many will be coming at that time. Perhaps you can let me know after the adjournment.

Mr. Morin-Strom: When are we going to talking about the agenda?

Mr. Chairman: The subcomittee was going to meet tomorrow afternoon after the committee meets.

Mr. Ashe: Do we know what our agenda is for next week?

Mr. Chairman: We are not going to have a committee resolution to meet the fifth week.

Mr. Morin-Strom: Yesterday Mr. Ashe made a motion that we should go to the House leaders and ask for that fifth week at the end.

Mr. Chairman: I see what you are saying. That debate was adjourned until Mr. Foulds could be available.

Mr. Morin-Strom: I am just asking when that is going to happen.

Mr. Chairman: That is a good point. We could discuss it right now on the record, if you wish, through to 4:30 p.m.

Mr. Morin-Strom: Let us go back to the motion.

Mr. Ashe: For the benefit of Mr. Foulds, though I am sure he has been filled in on the discussion, I will put it in again.

There is concern that in the four weeks allocated to this committee--and I am sure other committees may very well be saying the same thing--in order to get down to Washington, which will take a day or two out of the schedule, we will not be able do justice to the treatment of Bill 116 and have any time to complete our previous unfinished task that we started some time ago to do with corporate concentration.

The reconvening of the Legislature is one week later than originally proposed. Originally in the draft agenda, we had a fifth week indicated, which was the week before that one, the week of April 13, as I recall, as a possible week. We should instruct the chairman of the committee to approach the House leaders with whatever is appropriate to see if we can be allocated, with agreement, some days as required in the week, which would be the week of April 20, prior to the resumption of the legislative session in the event that we need them.

Without going into further long detail, that was the basis of it. No committee has any dates in that week because we did not know we were going to get it. Obviusly, there is no conflict in that sense. Undoubtedly, people may be away, but that holds true for each and every week of the break, I suggest. I do not think that in itself is a reason. It is our understanding that with agreement between the three parties, we may very well be able to get one, two, three or four days, whatever we end up needing. We will not know that until we get there. We will not use if if we do not need it, obviously.

Mr. Chairman: There has been some debate on this point and it all seemed to be positive, although there was realization that--

Mr. Foulds: Just let me review this. I understand the House is not coming back until April 28. What you are suggesting is that we apply for some days in the week of April 21, because Monday is Easter Monday. What do you say we go for three days? If we need them, we use them; if we do not need them, we do not use them.

Mr. Ashe: That is all we were saying. We may not even need them, but we think we will.

Mr. Taylor: If we are going to Washington, we will.

Mr. Ashe: Probably.

Mr. McFadden: In my view, I would like to have Bill 116 out of the way before we come back here, if it is possible, so we do not have to be bothered with it, split up a day here and a half day there. It would be nice to have it out of our hair. Obviously, that seems to be of some concern. As soon as we get back, we will be burdened with it anyway; so since we have the extra time, why not clean it up and get it finished.

We have that other thing too, corporate concentration, which we have not even touched. I do not know if we will get to it then.

Mr. Foulds: My own impression is if we do a decent job on the budget and Bill 116, we will be doing plenty.

Mr. McFadden: I think so too.

Mr. Foulds: Why do we not apply for three days of that week? If we need them, we use them; if we do not need them, we do not use them.

Mr. McFadden: I do not think any of us wants to come back if we do not have to. I think George is right; we may have to be short-staffed on the committee.

Mr. Ashe: The week of April 20 is the Monday, but as indicated by Mr. Foulds, that is Easter Monday; so we are really talking about Tuesday, Wednesday and Thursday of that week.

Mr. Chairman: Mr. Ashe moves that a request be made of the House leaders to allow the committee to meet April 21, April 22 and April 23.

Motion agreed to.

Mr. Ashe: The concern was registered about the possibility of concern by the New Democratic Party. That is why we set it aside until Mr. Foulds was here.

Mr. Foulds: It may be that only one of us was here.

Mr. Ashe: That holds true of virtually every week when some of us have a problem for one reason or another.

Mr. Chairman: We are adjourned until 4:30 p.m.

The committee adjourned at 4:09 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

THURSDAY, FEBRUARY 19, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Miller, G. I. (Haldimand-Norfolk L) for Mr. D. R. Cooke
Partington, P. (Brock PC) for Miss Stephenson
Polsinelli, C. (Yorkview L) for Mr. Epp

Clerk: Carrozza, F.
Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Public School Teachers' Federation:
Langdon, L., President
Lennox, D., General Secretary and Chief Executive Officer

From the Ontario Public School Trustees' Association:
Campbell, S., President
Jakub, J., Director of Legal and Personnel Services
Phillips, W., Executive Director
Pierce, M.

From the Council of Ontario Universities:
Connell, Dr. G. E., Past Chairman; President, University of Toronto
Earp, Dr. A. J., Chairman; President, Brock University
Arthurs, H. W., Vice-Chairman; President, York University
DesRosiers, E. K., Director of Research
Monahan, Dr. E. J., Executive Director; President, Laurentian University of Sudbury

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 19, 1987

The committee met at 10:12 a.m. in room 230.

BUDGET REVIEW
(continued)

The Vice-Chairman: Ladies and gentlemen, before we get the proceedings under way, I should tell those of you who do not know, and probably do not care, that I am the vice-chairman of the committee. The chairman, Mr. Cooke, is unfortunately unable to make it this morning. I guess I am in for the extra bucks that do not exist as vice-chairman today.

On behalf of the committee, let me welcome you to the proceedings. The first delegation, as indicated on the agenda, is the Ontario Public School Teachers' Federation. Larry Langdon, the president, is here.

Mr. Langdon, welcome. I will ask you to introduce the other gentlemen with you and any other members of the delegation. As well, I will ask you how you prefer to make your submission. Do you prefer no interruptions? Do you prefer questions as you go along? Do you want to make your presentation and then leave it open to questions?

Mr. Langdon: The last would be preferable in the sense that we would have some preliminary comments, present some material and then would be open for any questions.

The Vice-Chairman: Very good.

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

Mr. Langdon: It is indeed a pleasure to have the opportunity to speak to this committee. I would like to introduce three members of the staff of the Ontario Public School Teachers' Federation who have come along. At particular points in the presentation they will be able to respond to questions within their area of expertise.

First, we have Dave Lennox, our general secretary and chief administrative officer. We also have Liz Coome, our research officer and Vivian McCaffrey, our legislative observer. They comprise the four-member delegation from OPSTF.

In making some preliminary comments, we would like to make reference to the written presentation that we submitted to the standing committee on finance and economic affairs. We will not attempt in any way to go over that in detail but we will be making reference to it. We would like, though, to present more specific information in relation to elementary schools.

Our belief as an organization is that while all public education requires more funds, the other sectors can stand on their own and they are prepared to speak to that. We are here this morning to speak to the members of the provincial parliament in direct reference to elementary education and what we believe is the specific plight of public elementary schools within this

province and the implications of the current level of funding and past levels of funding.

There are two pieces of information we would like to call to your attention. We are aware that the provincial budget, in terms of expenditures, has risen over a period of years. We would like to point out to the MPPs that 10 years ago the provincial share going towards colleges, universities, elementary and secondary education was 23 per cent of the provincial budget. As of last year, it had declined to 18 per cent. So there is a significant drop in what we view as the priority of education in terms of its strict fiscal sense.

The other piece of information that we would like to address with the committee is the provincial involvement in the financing of education, which over the same time period has dropped from 61 per cent to 46 per cent. There is every indication, with the current funding announced by the Minister of Education (Mr. Conway), that it will fall even further.

We would like to focus on two key issues: the provincial share of elementary and secondary education costs and the differential in per people grant ceilings between elementary and secondary education. We have been active in making these two concerns well known to the educational community. For us to address those two issues would not be a surprise to any of our colleagues in education or in education-related groups.

We also recognize that the ability of the Minister of Education to respond to them is limited by the budget allocation granted to education by the Treasurer (Mr. Nixon). That is why we are appreciative of the opportunity to talk to the economic and finance side of the issue as opposed to talking to our colleagues and those particularly concerned with education.

Over the past 10 to 11 years, we have been monitoring and have been quite vocal in expressing concerns that while the actual provincial expenditures have increased, education has declined as a priority. We have seen over the past several years that there have been additional costs to the government, but most of those additional costs have been extending the separate school system in terms of operating costs and capital expenditures.

Our concern is that the needs of the public school system cannot be adequately addressed as the provincial government moves to implement fully the extension of a second publicly funded school system. Our presentation is therefore based on the public elementary system.

We had the opportunity last year to speak to many of the members on this committee about our second major focus. I will make specific reference to A Blueprint for Justice. I had the opportunity to meet with Mr. Taylor, and other members of the OPSTF had an opportunity to meet with various members of this group to talk about public elementary funding. We put it into a package that allowed us to put our thoughts together and then speak to the documentation.

We have essentially put two objectives for that document: to challenge some of the traditional rationales that currently exist for the gap in funding between elementary and secondary education and to dispel the myth that elementary education is significantly less costly than secondary education.

To move to the present, we would like to turn your attention to the update on A Blueprint for Justice, which we have brought down and which the

clerk has distributed for your information. Work through that quickly so you can appreciate some of the information that we are bringing forward.

I talked about traditional rationales and dispelling the myth. The first one I will give you is a key example. It is on the gold sheet entitled "Increases in Experience and Qualifications Not Recognized in Elementary Grants." The Minister of Education in the mid-1970s, based on input from the teacher groups and the fact that elementary education was becoming increasingly complex, passed a requirement that all elementary teachers would require a general bachelor of arts as a base requirement to get into teacher training.

On the gold sheet you will note what that has done over the past 10 years in terms of qualification of elementary teachers. You would have to appreciate that we use within our profession a seven-step grid based on a variety of factors. The general BA would move you to the fourth step on that grid. Note that we do know how to count. There are not two sixes in the lexicon; it does refer to a seven.

In that 10-year period, when we have seen the concomitant movement of teachers at the elementary level, you will see that probably the vast majority of elementary teachers prior to the institute of that regulation did not have a degree. In that 10-year period there has been a significant shift. On the back of that sheet you will see the same shift that has occurred with our secondary colleagues. You will see it is much smaller because of starting from the same base.

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What we are not saying is that we are as qualified or less qualified. That is not the point we are making. The point we are making is that over the past 10 years there have been significant dollars that have gone into teachers' qualifications because of regulations and because of the need of elementary teachers to become more highly qualified.

The Vice-Chairman: Mr. Langdon, excuse me. Let me interrupt you.

Mr. Langdon: Yes.

The Vice-Chairman: In the category grid, can you explain for me, and perhaps for the committee, what 3.65 means, and what is A1, A2 and D, C and B? Or is that important?

Mr. Langdon: What that means within our category system is that we have a seven-step process that is dependent on qualifications. A teacher coming out of secondary school with one year of teacher training and no other qualifications would be in category D. Over a period of time, if teachers acquire five ministry courses, five university credits towards a BA, they move from category D to category C.

The Vice-Chairman: I see.

Mr. Langdon: Within the qualification system, the only way you can manage to get to A1 is to have a university degree, a general BA, then you can add requirements from there such as a Master of Education, which vast numbers of our members have, and further ministry courses, until you work yourself up to the position where you are in what we call A4, which is the maximum.

The Vice-Chairman: Thank you.

Mr. Langdon: The other thing I would like to call to your attention is what has happened in that same decade with qualifications. I ask you to turn to the second sheet, which is entitled "Unrealistic Grant Ceilings Penalize Elementary Boards," appreciating that you will be meeting with representatives from the Ontario Public School Trustees' Association after our presentation. They will probably speak most directly to this question and other questions that relate to school trustees.

There are some particularly significant pieces of information which have occurred in that ten-year period. There should be another piece of data that we have brought forward. On the back of that sheet we give you a picture of what has occurred, based on the ministry estimates of 1986 on overceiling expenditures at the elementary level.

That picture demonstrates that the average overceiling expenditure per elementary student per board is $623.02, so, for the 760,000 elementary pupils in the system, school boards are raising that amount of revenue over and above what is grantable under the grant ceilings. What is particularly significant in that is that on the accompanying sheet, when we go back to 1978 and trace the average overceiling expenditure of elementary boards, we will find that in 1978 it was $64.34. In that 10-year period, the increase in grant ceiling at the elementary level per pupil has resulted in an 868 per cent increase in the overexpenditure by elementary boards at a per pupil level. We believe that figure is graphic and hope it speaks for itself.

The third sheet dealing with "Increased Funding Vitally Needed for Elementary Programmes" deals with the fact--and we have quoted some of our colleagues in the trustee organizations which are dealing with capital funding. We are also quite prepared to point out that we probably have a billion-dollar problem occurring in Ontario, because of the area of underfunding, particularly of elementary education.

That has resulted in school boards having to react by postponing some very significant renovations over a 10-year to 20-year period, to the point where we now believe that a great number of our public elementary schools, of which we have about 3,000 in the province, need a significant influx of capital funding if they are going to be brought up to standard.

We do need significant new accommodation because of shifting population patterns. There is need for capital funding to build new schools in areas where there is significant population growth. But we also do not want to lose sight of the fact that the 3,000 schools that exist at present and are currently in operation need major influxes of capital in order to maintain themselves.

A fourth area that we would point out for information is elementary school fund-raising. My federation took a look at this issue and would have disseminated a report to you in the early winter of this year. We appreciated that we had an industry in Ontario called fund-raising. It was to a tune of probably $20 million in total cash flow, in which case we were estimating that upwards of eight to nine million dollars were being used by individual schools through fund-raising to buy programs and services.

On the back of the yellow sheet entitled "Elementary School Fundraising," you will see how the funds were used, the replies we got from schools and the percentage of those replies that were allocating funding in

particular areas. We submit that this piece of documentation is symptomatic of a problem of underfunding of elementary education.

Increasingly over the years, schools at the individual level have had to divert more and more of their fund-raising funds from things such as awards, graduation, provision of team uniforms and cultural activities to things that impinge directly upon the elementary school program: field trips, computer hardware and software, playground installations, library books, physical education equipment, sports equipment. The list goes on and on.

We believe it is symptomatic in the sense that it is the school's and the community's reaction to make sure that at least those sorts of funds are going in to buy the library books and to provide the field trips that the school allotment can no longer possibly provide.

When it comes to correcting the problem, we have already mentioned the two global figures which deal with the concept of 23 per cent to 18 per cent and 61 per cent to 45 per cent, but as I said in my introductory remarks, we would like to relate particularly to elementary schools and what has been occurring.

If you take a look at the sheet, you will see that the grant ceiling differential between elementary and secondary continues to grow. We have had an interesting situation develop. In the past two years, elementary schools have received, on a percentage basis on the per pupil allotment, more than secondary schools. Two years ago, the figure was 4.13 to 4.12, and the gap grew to $879 from $843. Last year, we saw a more marked indication. The grants that came through realized 5.8 per cent on the per pupil ceiling to elementary schools and 5.2 per cent to secondary schools. The impact of that is that it allowed the gap to increase a further $32, because the base levels of both systems are now so widely separated.

I will give you another figure we are particularly shocked about. If we called a halt today, recognized that elementary schools are every bit as expensive to fund as secondary schools, made a decision to eliminate that gap and gave 5.5 per cent to secondary schools to continue their growth and their ceiling to meet their expenditures, we would have to give a 43 per cent increase to elementary schools to bring them to the same level of funding as secondary schools.

With that fact, we appreciate that we should share with you some figures. Indeed, we have a $1-billion problem in terms of funding elementary schools. For every $100 that you put on the elementary ceilings, it will cost the government $106.2 million. You can see that by reducing the gap of $911, we are essentially looking at a $1-billion problem.

We do not apologize for bringing those figures forward. We submit to this committee that the underinvesting in elementary education has been going on for at least a decade and that with regard to those underinvested funds, the funds that were diverted to other programs and services within and without the education sector, at some point, there has to be a planned approach to return those funds to elementary education.

We are not alone in that. Since we have started this campaign, we have had people who have expressed support. For example, in the 1985 provincial election campaign, the Liberal Party submitted a letter, dated June 19, 1984, to the Ontario Teachers' Federation on its position on the funding issue. The then Leader of the Opposition, David Peterson, wrote, "It would be the

intention of the Ontario Liberal Party to restore this level of funding to a minimum of 60 per cent on the average across the province during our first term of office." Our assessment of the other two parties represented in the Legislature shows very similar positions and commitments.

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In December 1985, the Commission on Financing of Elementary and Secondary Education recommended that the government of Ontario affirm its financial commitment towards the funding of education, that it move towards contributing 60 per cent of the approved cost and that the Ministry of Education increase the per pupil grant ceiling to more realistic levels with additional general legislative grants.

In a recent letter, the Honourable Sean Conway responded to a letter from me. He wrote:

"The Minister of Education acknowledges the gap between the level of funding for elementary and secondary pupils. At the same time, we realize that there has been a gradual reduction in the difference in the cost of providing elementary and secondary education. We intend to examine the appropriateness of current grant ceilings and to address in particular the gap between the elementary and secondary ceilings."

The Deputy Minister of Education, Bernard Shapiro, told a CBC radio open-line program audience in January of this year that he hoped to see a substantial improvement in the amount of money available to elementary schools in his term of office. He stated: "We have been expecting schools to do more and more and we have not always been providing the resources."

Finally, the 1986 Ontario Institute for Studies in Education survey of public attitudes towards education, relased this January, revealed that Ontarians would support more money being channeled into education.

The Vice-Chairman: Did anybody ever tell you that you are painfully thorough?

Mr. Langdon: I may be, but I think it is important to realize it just is not OPSTF that has indeed expressed a concern specifically about elementary education.

My final comments will be brief. It should be made very clear that as a profession, teachers in this province are constantly working to improve their qualifications, knowledge and teaching skills to serve students better and provide quality education. That is not meant to be a trite comment. It is meant to be a very firm expression by our organization of why its members are in the profession.

Teachers are also constantly working with the Ministry of Education to design curriculum and identify new resources, but we cannot be simply in a holding pattern in our school system. Significant new demands are being placed on the educational system. These demands are not only coming from parents, who expect more individualized and specialized services for their children, but also from this government, which looks to the school system to play a key role in accommodating its vision to move Ontario into the new age of technology and the 21st century.

Significant new provincial funds are required, not to throw at the

educational system--we would not support that in any degree whatsoever--rather, we would support a concerted, targeted effort to provide funds where they are indeed needed and to provide the accountability for the provision of those funds. We believe we have to relieve the burden of educational expenditures at the local level and enable the system to respond to the complex demands placed upon education today.

If we see the press comments that have come forward in favour of education outside of the educational sector--from acquired immune deficiency syndrome education to more physical education and morals and values teaching, we appreciate the school system has expanded far beyond the traditional setting.

We take a look at the minister's announcement on primary and junior science and the provision of $7 million, we agree, to provide human resources. But that does not take into account the material and physical resources that are needed. Funding for education--this is my final comment--particularly at the elementary level, must be viewed as an important investment for the future welfare of the province. Indeed, our children are the strength of tomorrow's Ontario.

My apologies for going on for some length, but it is indeed an issue we feel most strongly about, and we did not want to leave you with the impression that we had not spent concerted time in preparing for our meeting with the MPPs in this committee today.

The Vice-Chairman: Let me say on behalf of the committee, initially, that there is no apology necessary, and I commend you on behalf of the committee for your thorough presentation. We realize how important it is to your association, and it certainly is to the members of this committee.

We will start some questions now. I have a couple of members who want to ask questions at this point and I am sure there will be others. I point out to the committee members that we have 15 minutes and that I will allocate five minutes each, assuming I get three speakers. I will allocate five minutes to Mr. Taylor to start off and then, I hope, I will go to the other parties. I am a little different as chairman; I like to rotate among parties.

Mr. Taylor: The committee is in good hands this morning, obviously.

The Vice-Chairman: Flattery will get you everything.

Mr. Ashe: Can we get on with it? Get on with it.

Mr. Taylor: You will be happy to hear I am not going to take the five minutes, but I just want to reinforce the observation of some members of the committee that your brief was an excellent one: right on, succinct and sometimes hurtfully true.

I have publicly taken the position you have taken today, and I would like to reinforce that position. I think the role of the public schools is underestimated. It is a travesty that the gap has not been closed more quickly. As a matter of fact, it is widening instead of closing. As everyone knows, I am in opposition now in government, but I have been in opposition before, even when the government was a Progressive Conservative one.

I want to say that I think the committee should give very serious consideration in its deliberations on this budgetary process to trying to

ensure a closing of that gap in funding between the public and the secondary schools, and also to review the percentage of provincial participation in the overall funding. I say that because maybe in the cities it is not so important, but it is difficult in rural areas, where there is not equal opportunity; we are talking about equality of opportunity in terms of education. It is more difficult to achieve in the rural areas because the facilities are not there to the same extent. Remember that it was government that initiated the central school system--

Mr. Haggerty: The buses, you mean.

Mr. Taylor: That is right; the buses.

The thrust was to get equal opportunity for the students throughout Ontario. Now, we are not--

The Vice-Chairman: Forgive me, Mr. Taylor. Do you have a question?

Mr. Taylor: Yes. I just want to make this statement because we are going to be deliberating on this. We should be giving very careful consideration to the promise--to keeping the promise--that I think has made by all political parties.

Mr. Morin-Strom: I guess that was that five minutes.

I certainly agree with some of the concerns that Mr. Taylor has raised. However, I am looking at the chart in your presentation to us--not the fancy pages, but page eight of the written submission--where the gap is laid out over the period back to 1970, which is quite a considerable period. While the gap is increasing in terms of absolute dollars, it does not seem to be increasing in terms of percentage. If anything, it may be narrowing. If you go back to 1970, which seems to be the initial base of this chart anyway, the secondary funding was at double the level of elementary funding: $1,000 per pupil, compared to $500 per elementary pupil. Now it is nowhere near double, although the gap in absolute dollars is higher. There seems to have been a consistent policy over a very long period of time to put a much higher priority on, and certainly many more dollars into, secondary funding than elementary. I do not see it as a recent trend. I see it as a long-standing situation.

While I have some natural feelings that education at the early stages is vitally important--perhaps more vitally important to the long-term future of children than at the later stages of their career--why has this been so ingrained in the province? What is the evidence from the professional educators on how this distribution of resources should go, elementary versus secondary?

Mr. Langdon: Mr. Chairman, you have probably heard my voice enough. I am going to ask our general secretary to respond to Mr. Morin-Strom's question because it is something that has been asked through the various groups. Indeed we have addressed that question before.

Mr. Lennox: You have to go back to 1970 to when the grant ceiling was first initiated in the province, with the $500,000. Yes, the one was double then. We have to recognize the government of that day, in their wisdom, said, "This is what is required to fund elementary and secondary education."

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They had a certain number of facts at that time. The example was that in 1969 we brought in the reorganization of school boards in the province. It was one year old when they did this, so we were just going into central schools in the province of Ontario. They had no other identification of the cost for those schools. We had elementary school teachers who, at that time, did not have university degrees, and therefore the cost of paying elementary teachers was much lower.

Since then, we have added central schools with gymnasiums, library resource centres and special programs in the elementary schools, where the secondary schools have had those. Take nothing I am saying to be degrading to my secondary school colleagues or the skills that they offer. As you can see, we went along for four or five years when the government said, "Hold it. This gap is getting too wide. We have to infuse $80 in each of the two years, 1975 and 1976, to bring this gap back below $500." The government of the day said, "We have to stop this gap growing." Consequently, what they did was put on a percentage. As long as you add the same percentage to different bases, we know what happens to it. If I make an average salary of $20,000 per year and you make one of $80,000 per year and we lay on the same percentage, we know what happens. All right?

What occurs here is--yes, I have heard the MPPs before saying, "Well, Dave, this gap is closing. This percentage gap is closing." Yes, when we get the secondary funding to be at $20,000, and when we get the elementary funding to be at $10,000 one will only be 50 per cent of the other, not 100 per cent of it. If we want to talk about that type of logical approach--it is so illogical to use the 100 per cent difference at the beginning, back in 1970, as any type of rationale to perpetuate an evil.

I will close by saying that we recognize how wide the gap has become, because of laying the percentages on elementary and secondary gaps. We believe an alternative that has to be looked at is going back to the solution in 1975-76: Do we lay the percentage on elementary and secondary funding and then an additional dollar impact on elementary funding to guarantee the gap is closed? Do we lay on $100 more for each elementary pupil in this province or $125, or $150 to close it?

I hope that provides explanation that things did not stay at the status quo from 1970, and to use that 100 per cent argument is illogical.

The Vice-Chairman: It is only illogical, Mr. Lennox, if you know the details as you have just described them to me.

Mr. Lennox: Yes.

The Vice-Chairman: It is an excellent question.

Mr. Lennox: It is truly an excellent question. I do appreciate your sharing that.

The Vice-Chairman: Thank you. Mr. Haggerty, and if we have time, Mr. McFadden and Mr. Miller.

Mr. Haggerty: I want to congratulate you on your brief, too, and the well-documented statistics you presented to us to back up your arguments in support.

Like many committee members, I support the arguments that you put

forward on additional funding, particularly to the elementary level. Has your association done any studies in this particular area, in regard to the drop-outs in high schools at grades nine and ten? I understand this is a serious problem that is costing the educational system, the upper tier, a considerable amount of money, where, if it had perhaps been spent at the elementary level, we probably could have had someone continue into high school and even into other areas of occupational--

Mr. Langdon: Once again, if I can respond, Mr. Chairman, we have indeed--though it is hard to prove the relationship because in the sense of a youngster at six or seven years of age, you can in no way or any way want to, predict that he or she is going to become a drop-out of the system--documentation and research on file, that we did bring forward to the commission studying financing of education, the Macdonald commission. We duplicated that information when we presented it to the early education project. It said very clearly that the investment in education should be made as early as possible.

Laurier La Pierre did a report for us called, "To Herald A Child," which, interestingly enough, was replicated in a great many of its forms in the early childhood project. He made that very clear, in the sense that if there was to be any investment in educational funding, it should be made very early in the child's primary school career. Whether, if it was indeed made there, it would solve the dropout problem is a moot point, because we would have to wait 10 or 12 years to demonstrate it.

It is the feeling of our association, based on the class-size studies we have looked at, that the persons we have commissioned to take a look at how funding could be impacted to primary in terms of lowering the class size, of providing physical material and human resources to that end--we are very firmly of the belief that there is a direct relationship between what you suggest is a dropout problem and the fact of getting that literacy at a very early level, providing programs and services and providing the male and female role models, positive daily role models that they may or may not receive out in general society, very early in the child's career

Mr. Haggerty: To accomplish that, you are suggesting lower class sizes, that, instead of the average of about 35, we are looking at 20 or something like that?

Mr. Langdon: We believe that is a significant area that has to be looked at if you are going to get into individualized instruction. That was the promise of what we call Living and Learning, the Hall-Dennis report. In spite of its having a bad reputation, there were a lot of very good theories there that, if translated into practice, would have indeed dealt with our educational system. We agree that if there is an area in which to put funding, it is primary area. If there is an area within that, it is class size, so that you allow the teacher more time with the individual student to assess the very individualized problems that cause the dropout in grades 9, 10, 11 and 12, because most of the dropouts are academically related. While we are never going to solve the problem of educating all youngsters to the same level, because of differences of abilities, we believe that if you start them on the road the correct way, to pursue the analogy, then they are going to make it a lot further up the highway.

Mr. Haggerty: One of the difficulties I find in the educational system, particularly in the colleges, is that years ago they used to be able to funnel a student through the educational system. Somebody would make the

judgement call and say, "The vocational area is for you." They seem to have dropped much of that out in the high schools today. We have left a number of our young people out on the streets, you might say, looking for employment, looking for an opportunity to be gainfully employed without the education, so now we come back with some makeshift programs and put these young people through the colleges.

Mr. Taylor: (Inaudible) on the academic side (inaudible).

Mr. Haggerty: That is right. There is another question I am concerned about when you talk about the core subjects at the elementary level. What are your viewpoints on Mr. Grande's bill which provides that each child should be educated in his mother tongue?

Mr. Langdon: We have taken a very firm position in opposition to that bill, not because we dispute the language integrity of a child and of the family and want to take that integrity away; we do believe, though, that the pressures it would put on the system, elementary or otherwise, in terms of educating all the academia in whatever language occurs, would put unbearable stresses on development of resources and training of qualified personnel to deliver those programs. We believe we would be introducing a cultural component that would have very serious consequences to the educational community, when indeed we believe there are other significant outlets, least of all the provision of the school building in those nonacademic times as a gathering spot in every community across this province.

We support that when the school is not in during the school day, then those buildings should not be left vacant; they should be the focus of cultural activities and provide that safe and warm haven into which to bring youngsters, along with their families, and offer those programs.

Mr. Haggerty: If it was to be implemented and take a certain period throughout the day for languages, would there be a setback in the core subjects in the elementary school level?

Mr. Langdon: We believe so, because right now, when you add on all the things that we have referred to in our brief and then you add on this very large component, if you keep adding on, you eventually ask the question, "What goes?" You eventually will then say, "English goes, math goes, social studies go." You will find that our profession will hold on to those the strongest. It is not that we do not want to serve the total child, and I am not being trite here; the point is that we do view ourselves as educators, and basic education is English, science, history and geography. Those are the things we do not want to see in jeopardy.

Mr. Haggerty: Math is in there too.

Mr. Langdon: Math is in there too.

The Vice-Chairman: Mr. Langdon, Mr. Lennox, Mrs. Coome and Ms. McCaffrey, on behalf of the committee, unfortunately time does not permit this debate to carry on much longer, any longer in fact; we have other delegations. I want to thank you very much for your very concise, thorough and, indeed, very professionally presented brief to us today. I want to assure you, as echoed by members of the committee, that the committee will deal seriously with the recommendations and suggestions made by the Ontario Public School Teachers' Federation.

Mr. Langdon: Thank you very much. We appreciate the opportunity.

Mr. Lennox: Mr. Chairman, just before you conclude, as I understand it, this is a new committee.

The Vice-Chairman: This is an offshoot, Mr. Lennox, of the select committee on finance and economics. Now it is essentially a standing committee of the House, very formal and, in fact, the Treasurer (Mr. Nixon), to some degree, has been a driving force behind this committee.

Mr. Lennox: Fundamentally then, it is new. Could you tell me what the process is that the committee follows as a result of hearing the presentations and the briefs?

The Vice-Chairman: We will have many more submissions than actual presentations.

Mr. Lennox: Yes.

The Vice-Chairman: What will happen now is that the committee will hear the remaining presentations and take them into consideration with the written briefs that were submitted to us. We will subsequently and, I hope, at length, debate the presentations and make a series of recommendations to the Treasurer and, indeed, to the government for implementation in the budget considerations.

Mr. Lennox: Thank you for that information.

The Vice-Chairman: I would ask members of the Ontario Public School Trustees' Association to come forward please.

Mr. Miller and Mr. McFadden, I ask for your forgiveness, but I assure you that you have first shot at this one, should you so desire.

While the delegation is being seated, I point out to the committee that it is page 2 of the summary of briefs, if you have your summaries with you.

On behalf of the committee, it is my pleasure to welcome the Ontario Public School Trustees' Association to make a presentation to the committee this morning. I ask the president, Sharon Campbell, to introduce members of her delegation and to indicate if you prefer to make your presentation and subsequently open it up to questions thereafter. Welcome.

ONTARIO PUBLIC SCHOOL TRUSTEES' ASSOCIATION

Mrs. Campbell: I have with me today Arlene Wright, on the end, a trustee from Grey county. Arlene is the vice-president of the Ontario Public School Trustees' Association.

The Vice-Chairman: I am sorry. Could I ask you to speak up a little more, please, Mrs. Campbell. Can you turn that up a little?

Mrs. Campbell: Bill Phillips, to my left, is the executive director of OPSTA; John Jakub, on my right, is the director of legal and personnel services; behind me, at the table, Marie Pierce, is the director of policy; and Ross Parry is the director of public affairs.

I believe that all committee members have before them, or have received,

our full brief. It is a greenish-coloured cover. I would like to give you an update on that cover. There is a list of the member boards of Ontario Public School Trustees' Association. I would like to have you add to that list three new members, just to give you a full idea of our membership and the students in the areas that we represent. The additional members are Nipigon-Red Rock, Red Lake and Kirkland Lake, making a total of 55 member boards in our organization.

I have a submission which I would like to read to you, then we will be pleased to answer any questions.

Rather than read our full submission I would prefer to highlight the suggestions we have made concerning the 1987 budget and then respond to any questions or comments from the committee. Our suggestions are not in any order of priority. Since there are only six, you can appreciate they are all extremely high priority items.

We would like to see increased capital funding for Ontario schools. In our submission, we have requested an additional $50 million to $100 million per year for new pupil places, and an additional $75 million to $100 million in a separate account designated for program upgrading. category B; replacement, category C; and renovation, category D. This would require that the current level of capital funding increase from the 1987 allocation of $147.2 million to as much as $350 million a year for several years in order to meet the increasingly urgent needs of school boards.

Of importance to the Ontario Public School Trustees' Association are post-secondary opportunities and a school-to-work transition. We have proposed a six-point program to educate, train and hire Ontario students. We support the recommendations contained in Ken Dryden's Report of the Ontario Youth Commissioner that the Premier (Mr. Peterson) appoint a task force to develop a strategy for full employment and a strategy for an educational training system. OPSTA recommends that the new educational training system be within the area of responsibility of the Ministry of Education.

We were disappointed when school boards lost their exemption from the Retail Sales Tax Act. We have requested reinstatement of the exemption of school boards from the seven per cent retail sales tax on classroom supplies and equipment, student supplies and materials incorporated into buildings and structures owned by school boards.

An extremely high priority is a phased return to the 60 per cent provincial and 40 per cent local education cost-sharing arrangement. We have asked for the establishment of a time frame to fulfil the promise of a 60 per cent provincial and 40 per cent local cost-sharing arrangement.

We have very grave concerns with the report of the Macdonald Commission on the Financing of Elementary and Secondary Education. We have rejected the Macdonald commission proposals, which would pool commercial and industrial assessment, establish program funding and an education income tax, and call for province-wide bargaining for teachers. Instead, we have recommended greater assistance to school boards with below-average assessments per pupil, increases in Ontario tax credits for property taxes for low-income individuals, adequate weighting factors for small and remote schools and school boards to meet their program requirements, and an extensive public review of Bill 100.

We have included a copy of our response to the Macdonald commission with

our submission which you have. We are pleased that the standing committee on general government is holding public hearings on Bill 100 next month.

We see difficulties with the application of pay equity legislation as presently drafted. We have requested that any pay equity legislation exempt teachers from its application, not allow for job comparisons from one bargaining unit to another, and be phased-in gradually after a grace period of at least two years. We have attached a copy of our response to Bill 154 with our submission. We are pleased that the standing committee on the administration of justice has scheduled public hearings on this bill.

In closing, may I stress that education must become a higher priority with the provincial government if Ontario's young people are to continue to receive appropriate education programs within acceptable educational environments. Certainly, we have no more important resource than the young people of this province.

The Vice-Chairman: Thank you, Mrs. Campbell, for your brevity. It gives the committee much more opportunity for questions. I am sure there are many.

Mr. Morin-Strom: I appreciate some of the recommendations you have made, particularly with respect to supporting the recommendations from the Ken Dryden report.

However, I am very concerned with your suggestion that teachers be exempt from pay equity legislation. That appears to be a very regressive step and not a progressive stand at all by your association. I do not understand how you can suggest that teachers be exempt and not suggest that everyone be exempt. Either the principle makes sense or it does not. In my view, you are opposing the concept of pay equity in that stand, and I would like to know why you are taking a stand in opposition to that piece of legislation.

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Mrs. Campbell: I will begin that answer. Traditionally, payment to teachers has been based on their placement on a grid. The placement on that grid depends upon previous training and the number of years on the job. There was never any distinction made between male and female people on that grid.

Traditionally, if there is one area of employment where we can say there is, and for as long as I can recall there always has been, pay equity, it is in the teaching profession. There is simply a grid of payment. There is no indication on that grid of sex. What is indicated on that grid is the number of years of teaching and the prior training before coming into that position. For that reason, we are requesting that teachers be exempt from all legislation involved with pay equity, because there is not a distinction made.

Mr. Jakub, would you like to add anything to that?

Mr. Jakub: That is the most important point: Historically, there has not been a perception of a pay equity problem in the teaching profession.

The second point I would like to make deals mainly with the technical details of the act. When we look at the act, we do not see that there is any exemption for the qualifications of teachers. As most of us in this room will know, the salary of a teacher is dependent primarily on two factors. One is the qualifications and the other is the experience. It would seem

inappropriate that this legislation should destroy a grid system that has been freely negotiated by the parties.

Mr. Morin-Strom: I am not convinced that it would destroy your grid system, and if you say that pay equity is in place in the teaching profession, I do not understand what you have to fear about it. At the same time, we still have to have the teachers as a basis of comparison with other occupations within the school system.

Mr. Haggerty: The administrators.

Mr. Morin-Strom: If you want to exempt the teachers, who are such a big portion of the school system, where is the comparison base going to be?

Mr. Taylor: That is your problem.

Mr. Morin-Strom: There is no problem in terms of the legislation as it is now. What is the position of the teachers' associations on this?

Mr. Phillips: We cannot speak for the teachers' federations, the teachers' unions. However, we would have difficulty seeing what group within the system would be compared to teachers.

Traditionally, the situation where there has been some discussion on pay equity refers to such groups as secretaries versus caretakers, but I do not think anyone in the school systems realistically looks at comparisons of teachers with those groups.

We are concerned with the way the pay equity bill is structured, that it may in fact create great difficulties in the whole area of the grid system and something that does not at present create problems of inequity with regard to male and female teachers.

Mrs. Campbell: To finalize this, in other words, if a grade 2 teacher in a classroom within my Prince Edward County Board of Education has four year's teaching experience, a Bachelor of Arts degree and one year at McArthur Education, our nearest training centre, it does not matter whether the teacher is male or female, the salary would be the same. Because that is working well in the teaching profession, it is a matter of "if it is working, why bother to fix it?"

Mr. Polsinelli: Just as a point of order, I think this discussion on pay equity is fine and I would love to join in. I agree with my colleague, Karl Morin-Strom, with respect to your having nothing to fear. If there is no gender-based discrimination in your system, you have nothing to fear. I suspect that is a little bit off base as to what this committee is supposed to be looking at.

Perhaps we can return to discussion of finances and leave this for the standing committee on administration of justice when we undertake--

The Vice-Chairman: The chair is ruling that, notwithstanding Mr. Polsinelli's comments, I think the questions are in order. It is part of their brief. As far as I can see, if the committee members want to ask a question on it, that is their privilege.

Mr. Morin-Strom, would you allow a supplementary to Mr. Partington with no fault to you timewise?

Mr. Morin-Strom: Fine.

Mr. Partington: I asked basically the same question as Mr. Morin-Strom. As a follow-up, we heard from Inco, one of Canada's largest mining companies, not too long ago they also have a grid scale in place that is free of sex discrimination. Therefore, presumably you would not need pay equity for them, either. Would you agree that any large corporation that has a plan like that should be exempt from pay equity legislation?

Mr. Jakub: In terms of looking at teachers, and school boards and their relationship with teachers, there is statutory precedent for excluding teachers. They are excluded under the Employment Standards Act. We felt that the system with teachers--and do not forget that as a school board, by and large a majority of our staff are teachers--that section did not need to have pay equity legislation apply to it.

If indeed it applies to it and we do not have gender-based discrimination, then I suppose there would be no problem, but there is a fear under the current legislation that the grid system that we have established is going to be taken apart by pay equity legislation. That is the primary concern.

In terms of comparisons with other bargaining groups, comparisons with teachers, perhaps that would still be allowed. We are talking about teachers being entitled to pay increases based on the fact that they do not have pay equity. Our argument would be that they do now, and please ensure that the legislation does not somehow afford them a right to which we do not feel they are entitled. That is the reason for the exemption.

The easiest way to do that is to say, "Let us not have the legislation apply to teachers and their unique situation."

Mr. Morin-Strom: I am finally addressing this issue one more time. To my understanding, there is no union in Ontario which is opposed to the concept of pay equity, including the teachers' associations. I would think the grid is of primary concern to the teachers as opposed to yourselves in terms of potential restructuring of it.

Now, if the teachers and other unions are not opposed to this concept, why are you so opposed to it? It seems to me the only reason you could be opposed to it is because you are opposed to the whole principle and you are undermining the system once you ask for an exemption for one particular occupation. Do you want pay equity legislation applied to society in general, or are you opposed to the whole concept and trying to undermine it and destroy the initiative the government is bringing forward?

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Mr. Jakub: Focusing on the aspect of teachers, and that is what our paper I believe addresses, we have suggested that teachers be exempted. Maybe if I play out the scenario that we see as possible under the pay equity legislation as proposed for teachers, that might be helpful. We now have a grid that has either four or seven categories for teachers to be placed in. The other factor is their years of experience at a school board.

Under the pay equity legislation our fear is that those category placements will no longer be a legitimate way of either giving someone an increase in salary or paying someone less salary so that you would end up with only one category, a teacher. The only variable you could have would be the

years of experience. As the pay equity legislation is structured, and indeed as all pay equity legislation is structured, there is only one way for salaries to move, and that is upwards. All your lower categories would be moved up to be equal to the highest category which would result in some substantial increases to a number of teachers.

Mr. Morin-Strom: In fact, are the lower categories predominantly women and the top categories predominantly male? Is that what part of the problem is from your perspective?

Mr. Phillips: If I might comment on that, that is not the case in the grid system because it depends on the qualifications of the teachers involved. Women teachers are as capable as men teachers of getting higher qualifications, and experience bears out that they do move through the category system. That is not the difficulty. The difficulty entailed is that if you remove that category system based on qualifications as a legitimate component, everybody will flow to the top category, which will have a disastrous economic impact on the costs of education.

Our association has not opposed the principle of pay equity because we are not asking for exemption from the legislation for other groups. The teachers are exempted from the Employment Standards Act. They are also placed in a special group for negotiation purposes. They are under the Education Relations Commission rather than the Ontario Labour Relations Board.. They have been treated as a separate group and, certainly in the case of pay equity, it would be consistent to continue to do that, since pay equity actually for them has real dangers and no real purpose.

Mr. McFadden: You have covered a number of vital areas in your brief. One of the points that came out in the Ontario Public School Teachers' Federation brief and appears in yours as well, both directly and indirectly, has been the relative decline in recent years in the priority given to the care and education of children. For a lot of reasons government has focused a tremendous amount of priority on health care in particular.

It is interesting to note in the pie here, which formed a part of the teachers' federation brief, that over the past 10 or so years, the decline in the percentage of education as a category was roughly equivalent to the increase in the health care component, which I think a number of us have seen over the years. That is not a total answer, however, because there have been shuffles within various categories.

It struck me that as we head towards an ageing society, as people talked about--and it is very clear just on the demographics--those of us in government and those of us in the education field are going to have to fight to maintain a focus on the young child and on children generally. Otherwise, we could totally move our resources and focus into other areas. You have focused on this, as have the teachers' federation. It is a matter that we all have to remember and be mindful of. I suppose I have a conflict of interest in this in the sense that my wife is a teacher and I have two kids in the school system, but I am noting the effect that some of this has had.

I have one question that relates specifically to the teachers' federation brief this morning and that dealt with the removal of the per unit, per pupil differential between elementary and secondary school systems. Their estimate was that it was a $1-billion cost that would have to be incurred by government. What is your attitude on the question of the gap between elementary and secondary school per pupil grants? How do you feel about that

point being raised, when that would certainly be a significant cost to government if it were to be totally covered?

Mr. Phillips: Our concern is that the expenditure ceilings for both elementary and secondary levels of education are too low. They do not meet the costs of educating those youngsters currently.

Mr. Taylor: And it is getting worse.

Mr. Phillips: It is getting worse at both elementary and secondary levels. Rather than say one or the other, our position is that the ceilings at both levels need to be improved to meet the real cost of educating youngsters. The priority is that as we get larger numbers of older citizens moving towards retirement, it is going to be much more critical for our young people to be highly educated and competitive to ensure that our economy remains strong in comparison to other economies and is able to provide the supports necessary to keep those people in their health care systems, etc.

Interjection: Amen.

Mr Phillips: We have a lot of investment riding on the education of our young people. If we do not do it well, we will not be able to manage economically.

Mr. McFadden: I agree with everything you have said. You have not quite answered my question. Do you believe that this differential between secondary and elementary school per pupil grants is something that should be dealt with immediately? Or do you not believe it is really the issue?

Even if we increase general spending, if this gap continues, the teachers' federations will still be back saying there should not be the gap. What I am trying to get at is whether that gap is significant in education terms. If it is, should there be total parity? Is there a better ratio that should be developed, or do you not have a position on that one way or the other?

Mr. Phillips: There are two elements. Our board has discussed that question and looked at it in terms of a couple of areas. One area is how much our school boards are spending now over ceilings in elementary and secondary. We are finding that we are as much over secondary ceilings as we are over elementary. In other words, the ceilings at both levels are inadequate.

Mr. Taylor: The distortion is not reflected in any overspending.

Mr. Phillips: The other thing, though, is that the percentage amount of the elementary ceiling versus the secondary ceiling has increased. This has been caused by the upgrading of elementary schoolteachers in terms of qualifications. At one time, one did not require a degree, for instance, to become an elementary schoolteacher. That has changed. The basic qualifications for elementary and secondary schoolteachers are now the same. What this has cost, of course, is an increase in the amount of money required to fund those positions because the system is based upon qualifications, to a great extent, as well as years of experience.

The second thing that has to be looked at is the type of delivery of education. One of the things that is happening in the elementary school system is that there is a real review going on as to how you deliver educational services to young children. A lot more attention is starting to be given to

that particular area by school boards and by the provincial government. The result of that may mean that there will have to be a strengthening of the funding at the elementary level to meet those needs and to do the programs that come out of that.

It should be based upon that, though, not just on putting more money in so there could be higher salaries. Rather the money should be directed to program improvements for children. That is the position we would take.

Mr. McFadden: So you are not mesmerized by ratios in that sense?

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Mr. Taylor: May I have a supplementary on that? You mentioned that spending above the grant levels and the distortion between public and secondary schools in terms of a differential is not reflected in the overspending. Do I gather that from what you have said? In other words, if the grant to the public school level is so small and inadequate, then it should be reflected to some degree in the overspending there, as opposed to the overspending in the secondary level.

Mr. Phillips: That is a fair comment. The funding has to follow the decisions about how you provide programs and the demands for more funding. Right now, we are in a situation where the current level of program delivery is not adequately funded by the ceiling amounts, the approved expenditure amounts. Our concern is that those be raised to cover even the current level of program delivery.

One of the things that has happened provincially is that the provincial government has put on a number of initiatives to improve the delivery of programs to students. Special education is just one example. To make certain that occurs, you have to provide funding beyond the amount that would keep you up to the cost of living and look after the fact that maybe you are working with a smaller number of pupils and your per pupil costs tend to go up in that circumstance.

Mr. McFadden: I have one final matter. With regard to the 60-40 ratio between provincial funding and local funding, I strongly support your proposal. In fact, I had a resolution on the floor of the Legislature in November which endorsed the idea of reducing the burden on the property taxpayer for education expenses. You will be interested to know the Legislature unanimously endorsed that, so we are heading that way.

I do have a question, though, with respect to your proposal here. You have not mentioned any form of phase-in period for this, as far as I can see. What I am curious to know is how rapidly you see us heading towards the 60-40 ratio. Clearly, there is a need to move education costs on a taxpayer more to where ability to pay is the concept rather than property tax, which does not reflect that. I am curious to know how rapidly you think, based on your studies, this should be done.

Mrs. Campbell: To be honest, we would like it done this year. Being realistic, that is the kind of answer that often does not get much consideration. We could say as soon as possible, given that we do understand that it cannot happen this year. It is a pressing need, particularly if you look at the list of boards which are members of our association and note the number of very small and remote northern boards. You can see it is of pressing concern to us. We are willing to acknowledge that it cannot happen this year, but we would like it as soon as possible.

Mr. Phillips: A further comment on that might be that it needs to be started. The redress to that type of problem starts with the first step in that direction. We have not seen a first step in that direction; we see a continuing decline.

Mr. Taylor: I think this committee should recommend that.

The Vice-Chairman: The subject of another day.

Mr. G. I. Miller: With this government, through the Treasurer, this year the money has been identified and the percentage has been put in place early. That has sent out a signal that he may be striving. How do we generate $1 billion and where do we get that money? Of course, our biggest expense in the education field is wages for staff, and they continue to grow. It is difficult. How do we generate it? Do you have any recommendation?

Mrs. Campbell: It is our understanding that in the booming economy of this province, provincial revenues are increasing greatly this year.

Mr. G. I. Miller: Maybe it is because of good management. When you look at the overall chart here and look at our public debt and compare it back to the last 10 years, it is four per cent higher. Health has gone up five per cent. I do not know whether you have those charts before you, but my colleague Mr. McFadden made the point on the overall budget that education has declined, but our social services have increased by two per cent.

Is there a point of directing the day care centres, using some of our education facilities to provide that--that is part of our teaching profession--and moving some of that money from our social services into the education field? We have to review it all. It is easy to ask for that $1 billion. Agriculture could ask for $1 billion tomorrow too, and we would not have protection in the funding community like the pensions and everything that goes along with them. I think there has to be a balance here when you start asking for $1 billion directly.

Mrs. Campbell: This is just a personal comment I would like to make right now, partially in response to your question. I believe there is a very real lack of recognition from the general public about the responsibilities that the school systems have taken upon themselves over the years. I think there have been many instances of social services being offered through the school system.

In my term as a trustee on a very small board in rural Ontario, I have had presentations made to our group for many things to be taken on as responsibilities, things that were formerly responsibilities of the community, the church and the various social and health services within the community. They included everything from providing nutritional breakfasts for the students arriving at school in the morning to making darned sure they are getting driver's education at high school so dad can get his benefit through his insurance policies.

In the general funding that comes to us and in the general public understanding of what is covered by education now, I do not think there is recognition of some of these things. As we continue to take more and more of the burdens of other service agencies and community groups, there needs to be a recognition of that fact in the funding we receive.

The Vice-Chairman: Mrs. Campbell, if I may interject, that is an

excellent point and, as politicians, we can certainly identify with the fact that we are being misunderstood by the general public at large.

Mr. Partington: Recommendation 3 deals with the exemption of school boards from retail sales tax. How much revenue would that generate to school boards?

Mrs. Campbell: I would like to refer that to Marie Pierce. She has the statistics on that particular item.

Ms. Pierce: In talking to our school boards, we have been finding that approximately 10 per cent of their overall budget has to go to cover the costs incurred with regard to sales tax. On a province-wide basis that can work out to be about $50 million annually that school boards have to pay now, which they did not have to pay in 1982 before the regulations were changed and the school boards had to start paying sales tax on certain items.

Mr. Partington: Did you say $50 million?

Ms. Pierce: Yes.

The Vice-Chairman: Just so that you might know the reason I am asking you to speak up, it is being taken down in Hansard, and we want to make sure that we save this for posterity.

Mr. Phillips: I might point out, too, that the disappearance of that money when the exemption was lost does not show up in any of those charts of decline. Actually, the decline is greater when you add that in, because it was a hidden decline.

Mr. Taylor: If there is a rebate for the old folks, there should be one for the kids.

Mr. Haggerty: I will direct a question to the panel here this morning with regard to the implementation of county school boards. I guess in one sense, the purpose was to reduce the cost of education. Is there any need now for the Ministry of Education regional offices? I understand there are a number of these in place yet, and some of them say they are dead timber.

Mrs. Campbell: Through the regional offices we do have services provided to the school boards within that region which I think would otherwise be very fragmented. They offer the school boards within that region a central place to call upon for information and for assistance when it is available. Through the regional offices, we have current information from the Ministry of Education and interpretation of the Ministry of Education's materials that come to us. In that role they do provide a useful function.

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Mr. Haggerty: That comes back to the question raised by one of the other committee members this morning, the cost of equal pay. If I can draw a scenario, there was a study done by the Ministry of Revenue and the Ministry of Municipal Affairs in 1975--

The Vice-Chairman: Are you speaking to the question, Mr. Haggerty? Time is limited.

Mr. Haggerty: There was a report presented to the members of the

Legislature, I believe in 1976, on the cost of regional government. In that period between 1950 and 1955, and I suppose you can draw a parallel to the school boards, the cost of local government in that area went up 120 per cent. The biggest cost was related to administration.

As I understood the original bill that was introduced in the Legislature, we were to do away with the regional offices, because you have the high-priced administrator there to do that type of work, so we find a duplication in this area. We are looking for some place to save and perhaps to spend additional funding through the system in the educational area for the students. Maybe we should be looking at this area. Are the offices redundant?

Mr. Phillips: It may be that in the southern regions of the province, where the boards of education are quite large, their role is more in the ministry's interest, shall we say, than in the interest of the school boards. Many school boards in the southern part of the province are large enough administratively that they just do not need the help of the regional office and it becomes a delivery system for government policy and supervision from the government rather than for the needs of the local school board.

However, in the northern regions of the province, where the school boards are very small in many cases and do not have the support services within the administrative staff of the school board, the regional offices become vital to help those school boards meet all the demands that are on them in all the special areas. There is really a difference there. To take them out of the northern regions would be disastrous.

Mr. Haggerty: I am not suggesting that, but it draws a good point that in the southern regions here they may be redundant.

The other question I want to direct to you concerns page 2. It bothers me to some degree here that, following your comments, it says the funds needed for repairs, renovations and upgrading, the current levels of capital funding will do very little to meet the pressing needs for repairs.

On page 3, on replacement, it says, "When a school building reaches the point where it will cost almost as much to replace as to renovate, it makes sense to build a new, modern, efficient school." As the elected representative in the riding of Erie, the deterioration of the school buildings, particularly in Niagara South, has been brought to my attention by concerned parents and others. I do not think the upper tier, the administration or whoever is in charge, has ever seen or heard of a paint brush or a gallon of paint. Many of the buildings are of brick or cement block construction and require little maintenance except around the windows.

I have seen myself and I have had brought to my attention the lack of interest in maintaining these buildings by the school board--whether through lack of funds or not, I do not know--but when you look at it this way, I think the direction the school boards, particularly in my area, are heading in is to spend no money on repairs of the buildings. They are better off replacing them. I will tell you, it is a shame to see that--

The Vice-Chairman: Is there a question, Mr. Haggerty?

Mr. Haggerty: The question is, am I correct in my thoughts on this abuse? Is it the policy of the school boards to let these buildings deteriorate without there being any general maintenance or even putting paint on the window sashes and things like that?

Mrs. Campbell: I would say definitely not. I think that, unless there has been an ongoing program of regular maintenance, the school does reach a point where perhaps it is beyond saving, so to speak. Those items would not be major budget items but would be an ongoing part of every school board's budget, and ongoing maintenance is a very costly thing to keep up. It comes out of our general legislative grants. If there is a major item to be addressed, such as a new roof, a boiler, something that is going to cost beyond the regular costing, there are grants available through the capital grants program.

What you are talking about, I believe, is regular, ongoing maintenance, and the moneys that are used for that ongoing maintenance program are taken from the general legislative grants, which are the same grants that provide books and pencils for the students. To have to commit large amounts of money each year from our regularly addressed budget to that kind of ongoing program eats away at the moneys we have for programs within the school.

The Vice-Chairman: Thank you, Mrs. Campbell.

Mr. Haggerty: I have one more question.

The Vice-Chairman: No, I am sorry, Mr. Haggerty. I want to get Mr. Ashe in, and then we are going to have to dispense with this delegation.

Mr. Ashe: I have two short points, and they are both as much for clarification as anything else.

On the sales tax question, if you look back--and needless to say, I am sure you will disagree with the perception--as I recall, when that sales tax exemption was taken off, the theory behind it was that we wanted to identify properly the actual total expenditures on an equal playing field, appreciating at the same time that they were going to cost dollars.

You will say that grants were not increased enough that year, and I will accept that, but I think you will find you can specifically identify in the numbers of the grant increase that year the recognition, if you will, that you put it in one pocket and take it out of the other. I know you will argue that you still did not get enough increase in the grants last year, but you will see in that year that the grants went up substantially. As I recall, that was part of the rationale. That is as much for clarification, and when you respond on the two together, I am sure you will comment on that.

The other point is on the 60-40 ratio, which we are hearing from all aspects of the educational community, whether from teachers, the trustees or the universities. We would also hear it from the colleges if they were coming. In the OPSTF presentation we have just heard, they very easily identify that in the past decade, the total expenditures in education in its broadest sense have gone down from 23 per cent to 18 per cent. That has been over a 10-year period. The dollars have gone up but the percentage of the total has gone down.

I think there is a little misperception out there right now in this approach to the 60-40 ratio which was alluded to earlier. What is your understanding of the past year, or more particularly the most current year we have, which is the fiscal year we are ending? Has that relationship increased or decreased? Is the province paying more or less than the current fiscal year versus the last one of the total?

Mr. Phillips: What has happened is that as time has progressed,

school boards have been required by the provincial government and by the public to provide education programs to a reasonable standard for the youngsters. In order to do that, it costs a certain amount of money. School boards are elected. They do not like to raise taxes, but they have had to. Certainly, they are not trying to spend money on an unreasonable basis. The costs of education currently are, in the opinion of school boards, reasonable costs for programs that are needed and have been demanded by the public and are in the best interests of the students.

The provincial grants and the provincial expenditure ceilings recognized for grant purposes do not meet those costs. The percentage of the real cost, the actual costs of educating the young people in this province borne by the provincial government, has consistently gone down. During the takeoff of the exemption of the sales tax, I did not discern any kick into the bucket to replace that money because the decline has continued and, as I say, we are looking for a turnout. I do not know if we have it yet. I have not seen it yet.

Mr. Ashe: Of the two points, first, you will find the dollars were there in terms of absolute numbers. The point that has to be clarified from a previous questioner is the fact that it continued to decline in the fiscal year that we are now ending. That is a fact, contrary to the views of some.

The Vice-Chairman: Thank you, members of the committee for your comments and Mrs. Campbell and members of your delegation. On behalf of the committee, I thank you very much for your very thoughtful presentation. It is obvious from the wide-ranging spectrum of questions you had to deal with that it was very thought-provoking. I assure you that the committee will deliberate long and hard on your presentation when it comes to the preparation of a report.

Mrs. Campbell: Thank you for the opportunity of appearing before you.

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The Vice-Chairman: It is our pleasure indeed.

While the members of the next delegation are taking seats, I will point out the committee it is number 16 in the summary. The orange folder was handed out yesterday. There is an additional handout today from the Council of Ontario Universities.

We have today, at this time, a delegation from the Council of Ontario Universities. I understand it is a very large delegation. I apologize to the members of that delegation for the inappropriate seating arrangements. Unfortunately, being somewhat austerity-minded, as I am sure you can appreciate, we have to live with what we have.

I would like to introduce to the committee Dr. Alan Earp, who is chairman of the Council of Ontario Universities. I will ask Dr. Earp to introduce the other members of his delegation.

COUNCIL OF ONTARIO UNIVERSITIES

Dr. Earp: On my left is Dr. George Connell, president of the University of Toronto, and Harry Arthurs, the president of York University. On my right is Edward DesRosiers, the research director for the Council of Ontario Universities. I am from Brock University, in the Niagara Peninsula, territory familiar to Mr. Haggerty and Mr. Partington. Among us we represent all the universities of this province.

We have presented you with a short brief. I would like to begin by saying how very much we appreciate the opportunity of meeting with you. It is another instance of the increased dialogue between the universities and Queen's Park, which we certainly welcome.

We are very glad to be able to present you with a succinct brief which we can both start and end on a more positive note than I think has, at times, been the case in recent years. There has been an improvement in the position of the universities, which we recognize and acknowledge. I think we were able to end the brief on a note of optimism.

In between, we would like to share with you our concerns in respect of the mounting demands placed on the universities of this province. The most recent evidence of that is the first report on application figures, which shows a jump of six per cent over this time a year ago. But less dramatic, less easily quantifiable, are the continuing demands on universities of a changing society, which is looking to them as one of the instruments for the economic change and recovery it anticipates.

We also allude to our adaptive capacity, which I think is so important for the universities; as demands change, we have to be able to respond. Our feeling is that we have a pretty good track record in terms of response to changing demands, but that has become more difficult with the deterioration in the relative position of the universities. I think that has to be recognized.

With the brief itself, or supplementary to it, is a set of tables in this orange document, which I think has just been distributed to members of the committee and is in the form of an appendix to that brief.

The Vice-Chairman: May I interject, Doctor? We are getting copies distributed today of every other page.

Mr. Foulds: It is not your fault.

The Vice-Chairman: The problem has nothing to do with the delegation. It will be rectified shortly.

Mr. Arthurs: I wonder if you got the pages with the good news or the bad news.

The Vice-Chairman: We will judge then. The summary is on page 16, however, to help the committee in the interim.

Dr. Earp: I would like to allude to some of the tables in the accompanying document, just to draw your attention to them. One we have used frequently in previous years remains of interest. Most of these are updating the information we provide annually, but there is some new information and some new comparisons.

One old standby has been figure 4 on page 16: the operating grants to universities on a per capita basis. It is a comparison between this province and the others in Canada. As you will see from that, that gap is narrowing partly by the upturn in the situation in our province, perhaps more dramatically by the deterioration in other provinces. That, of course, is not something from which we, or any Canadians, can really take comfort.

We can make some more recent comparisons with other jurisdictions, in

particular with the United States. Figure 6 on page 21 provides a fairly dramatic illustration; again we see the Ontario line turning upward in 1983-84 in a very gradual improvement, while Canada as a whole shows a continuing decline. But if we look at what is happening in the US, we realize that we in Canada, particularly in Ontario, shared the decline. In 1982-83, you see a tremendous upturn that has not yet been reflected in Canada.

If you turn over the page and look at figure 7, you will see that the sort of increase that has been occurring in per student appropriations in US jurisdications--only a selection of states is here but there is a US total--shows how very different our position in Ontario is from those states with which we see ourselves as competitors. The turnaround that has occurred in the US has not yet occurred in Canada. This is just one of the indicators that reflects the lack of the adaptive capacity we feel we require for these new challenges.

I think it is unnecessary for me to belabour these points, Mr. Chairman, because we are looking forward to an opportunity to respond to questions which you and your colleagues may have. Perhaps I might ask Dr. Connell and Mr. Arthurs to make some additional comments.

Dr. Connell: All I would like to add is simply to emphasize that the issues set out in our brief are, in our judgement, tremendously important, not only to the communities that happen to have universities, but also to the whole province, each and every community that is represented by those around the table and, of course, the whole Legislature.

Universities do reach out to your communities through extension centres and distance learning. We receive students from your communities and we provide for them what I think is an essential part of their preparation for the lives and careers they face in the future. Your communities are going to be populated by people that have come from our universities.

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The essence of our brief really is that it is essential in this day that the quality of experience that these students have is as good as it possibly can be. I do not think we can afford to shortchange them and to put them in a position where they are not going to be competitive with the very best in the world. That is going to have serious implications for the whole of this province.

Mr. Arthurs: If I might just add a word or two. I fully agree with my colleagues that, as is well-known around this table, not only the economic but the social future of the province in many ways depends upon its knowledge base. Universities are not just in the business of educating students but they are also in the business of producing knowledge which helps us to understand and improve our society, which grounds our economic growth and which gives us a better vision of all aspects of our culture. It is in that sense that we feel we are critical to development in all sectors.

From one perspective, we are consumers of government expenditure and, from another, we think we are an important public resource which contributes, in turn, to both those things which can be measured in dollar terms and those things which can be measured only in terms of social values. So we urge that a broad view be taken of our role in the province. We are happy, indeed eager, to play it to the full.

Mr. Ashe: This is not meant other than for information; I am not trying to twist the figure one way or the other. Very briefly, can you put some perspective to the actual dollars comparing the United States and how we stood in terms of the base year you started with? All I am trying to determine is: did we get progressively worse or were they far behind us when we started? I notice you always use percentage terms and that is based on a base and does not necessarily tell the whole story one way or the other.

Mr. DesRosiers: If I might try to answer that question. The reason we rely on percentage terms is we do not have a very good handle on the absolute comparisons. There are structural differences between the United States and Canada in terms of systems of higher education. While we have committed ourselves to engage in a major inquiry of comparative costs, we have not yet completed that work. It is easy to get hold of the changes in growth.

I have seen some numbers recently that focus on individual institutions in the United States. For example, the University of California at Los Angeles operates at about two-and-a-half times the expenditure per student that, say, the University of Toronto would operate at. Our sense is that there are remarkable differences, but we do like to be very careful about these numbers. We have committed ourselves to a major inquiry, but that work has not yet been done.

Dr. Connell might want to comment a bit on a recent visit he made to a university quite close by.

Dr. Connell: If I may, last week I visited a state university in a nearby state and had some first-hand impressions of the state of the physical plant and additions to it. I am quite confident that the new building program in that one campus exceeded the sum of all the building in all Ontario universities. There is a prevailing state of, I will not call it prosperity, but a sense of wellbeing, confidence, determination and recognition that they have the support of the state.

The Vice-Chairman: Not to mention jealousy.

Dr. Connell: That is a part of it too. This has become quite pervasive in the last few years, because there has been recognition by many state governments, as well as by the federal government. You would have seen this in President Reagan's latest state of the union address with his emphasis on basic research. This is now pervasive.

It is closely tied in to the concern about competitiveness. If we stand still in Ontario, there is no question that the leading United States centres of higher education are going to very quickly widen the gap between us.

Mr. G. I. Miller: How do they finance this? Is it all through state tax or is private money put in the construction?

Dr. Connell: In this particular case, the capital program is almost entirely state supported, except for a private venture for a hotel and conference centre on the campus, which is closely linked to the university.

Mr. G. I. Miller: Is the federal administration putting money into it?

Dr. Connell: Only into research facilities. For example, there is a major national facility on this campus which is entirely federally supported.

Mr. G. I. Miller: But not for brick and mortar.

Dr. Connell: No.

Mr. Ashe: To finish in that same area, I have two points.

The Vice-Chairman: Before your questions, what was the name of the campus?

Dr. Connell: The state University of New York at Buffalo.

Mr. Ashe: They have a lot going for them, just the fact that they are in Buffalo. The second prize is two weeks in Buffalo; third prize is three weeks.

I am still finishing off on the financial area. In your comparison, are you looking at an expenditure on a per student population or a government support on a per student population? The reason I ask that question is that we found out from some of your employees yesterday or the day before, namely, the professors, when we talked about that area, that the structure of fees in Ontario universities is somewhat similar. They vary from campus to campus to some degree and they vary with faculty, but they are generally in the same ballpark. Down there, you have $400 or $500 to $10,000 as being a fee, depending on the university you attend. I think that is relevant and should be brought into it. I am not looking for a long answer now; I think it is more when you are looking at your study.

The other one I suggest you do, and I am sure you have already thought of it, is that we in Canada, rightly or wrongly--and this applies equally in Ontario--have not wanted to suggest as a high priority that the University of Toronto Blues should be, at any expense, the best football team or the best hockey team or, in the case of talking about the United States, the best baseball team in the nation, to hell with the cost.

I think that is relevant when you are looking at the costs of operating a university. As you well know, they will spend millions and millions of dollars to attain that goal, but we have not made it quite the same priority. I do not mean that we do not produce reasonable football or hockey teams or, as down there again, basketball teams.

Mr. Foulds: A few Olympic swimmers, as well.

Mr. Ashe: It is relevant. To avoid future criticism in your in-depth study, I think you should be aware of it.

Mr. DesRosiers: If I might address the first part of your question, I take it what you are concerned about is that fees may constitute an important part of our income, versus income in the United States or vice-versa, and it has to be taken into account.

Mr. Ashe: Yes.

Mr. DesRosiers: We certainly were looking at state appropriations per full-time equivalent student and operating grants per full-time equivalent student here. We were looking only at public universities in the United States, so we are not talking about institutions with $10,000 fees. We are talking about the typical state institution down there.

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Dr. Earp: Of course, they often make money out of those expensive football teams.

Mr. Foulds: I have a couple of questions. The first one is whether you have any idea what in sheer economic terms the university system contributes to the community of Ontario?

Mr. Arthurs: I can help you just a little bit. I cannot tell you what it is for Ontario, but there have been some studies in Metro Toronto of the contribution of the institutions of higher learning when you look at payroll, purchases and so on, and we can provide those numbers to you. They are astoundingly high. I will just give you one example. The two universities represented by President Connell and myself are two of the largest 10 employers in Metro Toronto.

Mr. Foulds: Two of the top 10?

Mr. Arthurs: Yes.

Mr. Foulds: Taken individually?

Mr. Arthurs: Taken individually. That gives you some idea. If you went to a smaller community, I think you would find almost inevitably that the university is the largest single employer in that community.

Mr. Foulds: Are you talking about places like St. Catharines?

Mr. Arthurs: They would certainly be among the handful at the top when you count purchases, student consumption of accommodation and all of those things, and then above all when you count the university's capacity to attract ancillary activities, whether cultural, social, manufacturing or whatever they happen to be. I am sure a province-wide study would reveal a formidable economic contribution. I would be happy to make available to you the Metro study, which simply focuses on payroll and local purchase of goods and services.

Mr. Foulds: That would be very useful, because I think there is not great understanding of that. For example, in my own community of Thunder Bay, I know the university there has done a number of things. It has not yet attracted manufacturing, which is something we are working on.

Maybe Dr. Connell can comment on this. When John Polanyi won the Nobel prize, one of the comments that he made was that he really would not encourage students in the fields of pure research to stick around Canada. I was really rather shocked by that.

Can you explain what difficulty you have keeping people like him, and can you explain what might have caused that comment which was not made in any sense of anger or frustration, but just as a statement of fact?

Dr. Connell: In that context, he was speaking about graduate students, about his own students who come to the end of a four-year undergraduate degree in chemistry and then are faced with a choice of where to do graduate studies. His judgement was based on experience that I think is common to all of us, that the chemistry department at Yale, Stanford, California State Polytechnic University or any one of half a dozen

institutions is far better supported than is any chemistry department in Ontario in terms of resources and facilities.

When Dr. Lee, the co-winner of the Nobel prize who is at the University of California at Berkeley, gave his address in Stockholm at the Nobel prize ceremony, he put on the screen a picture of the wing of the chemistry building dedicated to his work and he said, "This is what the University of California did before I won the Nobel prize."

What this draws attention to is that the state of California appreciates the significance of the impact of work of that quality on the future of the state. Dr. Lee has at his disposal resources that can attract to that environment the very best of graduate students from the United States and Canada. That is not to say that Dr. Polanyi's laboratory is not also attractive, but frankly, the resources at his disposal at the University of Toronto are of a different order.

Mr. Foulds: Is this serious in terms of postgraduate students who leave the country not coming back? Do many of them migrate back? Do they find work in the United States or in the international sphere, and would they anyway?

Dr. Connell: Obviously, it is highly advantageous that many of our students have experience abroad and we should try to put ourselves in the position where we can compete effectively to get them back, but Canada and Ontario should be playing that game on a world scale and we should have coming to this country the very best of students from elsewhere in significant numbers. Occasionally, we will get a graduate student from MIT or Harvard or Princeton, but they do not come in the numbers in which Canadians go to the corresponding institutions in the US.

Mr. McFadden: One of the things about our scheduling of submissions is that it has led us to a veritable Hallelujah Chorus on education for two and a half days. We deliberately wanted to have our scheduling set up so that we focused on certain areas. I think it is quite self-evident that Canada's future in the world is going to depend upon a very viable and first-class system of education. It is particularly vital in the area of post-secondary education.

Last week, George Radwanski came in and gave further elaboration on the services study he did for the Treasurer. One thing you have commented on that I think a lot of people have totally overlooked is the direct employment impact of universities or community colleges in their communities, let alone the long-term benefit of education in terms of all the various businesses and other enterprises of society.

One thing has struck me, from going through all the submissions we have to date--and we have heard from different groups, such as the C. D. Howe Institute, the Canadian Federation of Independent Business and various other organizations who have come here and talked to us about fiscal responsibility and cutting the deficit--is that other groups outside of education have said not only that we should not worry about the deficit but also that they feel education and health's share have too much priority and we should put more money on roads and things of that nature.

We are confronted with a real competition here for what is a finite amount of money. I am curious--and I do not know if you have done the study--I have not seen a study on this and I am asking this from an information point

of view. I have seen a previous version of this report for some months. I keep getting it, as you know.

We have the list of states here: California, Illinois, Michigan, New York, Ohio and Pennsylvania. My question is, in terms of the spending priorities in those states, what percentage are those states spending on health care, for example, as opposed to education, or what percentage are they spending on social services?

The Ontario Public School Teachers' Federation this morning gave us a copy of our pie, which is in the budget statement. It has shown an increase in the last 10 years, for example, in health care, which is roughly equivalent to the decline in the percentage for education. We have also had an increase in the 10 years in social services.

I am curious to know, if you have the figures for those states, what emphasis they put on health care, social services and the social expenditure category, as opposed to post-secondary, elementary and high school education? Something is giving somewhere. They are not running massive, huge deficits, so I am curious to know where they have put their priorities. I have a suspicion they are just not spending it on health care. Do you have figures on those states over and above what you have here?

Dr. Earp: Not yet, and they are going to be very hard to get, I think, but that is the sort of comparison we are trying to make. We have done the same thing, of course, in respect of Ontario. Figure 1 in the orange document shows the trends of various sectors, hospitals, schools, correctional institutions and so on, and this is then updated. We do not have comparable figures for the US.

Dr. Connell: If I can cite one fragment which perhaps illustrates the difficulty of comparability, in the state of Minnesota, which is not cited here but is comparable, the University of Minnesota alone receives about eight per cent of the total state appropriations, which is getting on for twice the level of all the universities in Ontario. I think that is an indicator of the priority that state attaches to higher education, but I venture a guess that its expenditures on health care are very much lower, simply because of the structure of the health care system.

Mr. McFadden: The problem I have, and I am trying to share with you the problem our committee is going to be facing, is that, for instance, we had a submission this morning from the teachers' federation which said we should spend another billion dollars, urgently, to bring into balance the per pupil grants between the elementary and secondary school levels. They did not recommend that secondary school levels drop, of course, but that we bring the elementary schools up. That would cost us a billion dollars and that is an urgent requirement.

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The Ontario Public School Trustees' Association recommended to us, I think very justifiably, that the province take over 60 per cent of the education cost revenue. The level is now down to about 45 per cent. That would, of course, cost hundreds of millions of dollars.

I am curious as to whether you have given some thought to how we, as legislators, can deal with these kinds of demands on the public purse. It seems to me we have three alternatives; the first is to increase taxes; the

second is to increase the deficit very dramatically, and the third is to reorient the priorities, to cut some areas and push priority over into, say, education. We can do all those things. I am not saying they are mutually exclusive.

Do you have any advice for us in terms of what we should do? I know and agree the universities need more money. How would you, as people who are certainly very knowledgeable observers of the public policy scene, recommend we approach this?

Dr. Earp: This is a very difficult one. You really have outlined the options. I am afraid I do not know of any other option.

Mr. Ashe: A new printing machine.

Dr. Connell: I might point out one striking difference between universities and primary and secondary schools, which is that the latter have access to another source of revenue, the local tax base, that the universities do not have access to. We do have access to research grants from a variety of sources, but they sustain one special activity, not our core operations. Our core operations have a very small category of other incomes, but by far the greater part of our income, in excess of 95 per cent, is from two sources, that is, the provincial grant and the fees.

Mr. Taylor: Then the option is to raise taxes.

Dr. Connell: I am just pointing out to you that there are constraints on us that are not on others. You might think in terms of freeing up these constraints.

Mr. Partington: Recognizing that most of the funds must come from provincial grants, how do American universities compare with Canadian universities with respect to getting private sector alumni type of revenue, and what are Canadian universities doing to explore that avenue?

Dr. Earp: I do not think there is any question that they have a much longer tradition of effective fund-raising, which has become a pattern. Clearly, there are many universities in the US, both state and private, which outdistance all the Canadian universities put together. I think in recent years, all of us have been addressing that and hoping we can turn it around, but it will be 100 years before some of us approach the sorts of levels that have been reached in the US.

I was delighted to receive word only yesterday of a substantial benefaction, in our terms, from someone in the US. We have not yet had a Canadian benefaction that is comparable.

Mr. Arthurs: I would like to know where you write to get them.

Mr. McFadden: I think their alumni and corporations are more conditioned to give than we are. It is going to take a long time to turn that around in this country.

Mr. DesRosiers: That is not even restricted to universities in the States. The pattern of corporate and private giving has always been more generous in the US than here. We could ask why our corporations do not give as much to our universities as corporations give to universities in the US, but it just has not been the pattern.

In the past 10 years, universities have launched quite aggressive and successful campaigns for private funds; the success of some of them surprised me. In the Canadian context, they tend to be much more successful in attracting funds for capital expenditure than for operating expenditure.

Mr. Haggerty: Tax write-offs have quite a bit to do with corporations over there, too.

Mr. Morin-Strom: This is a tough issue for me because I have so many conflicting concerns and views on various aspects of university funding, an issue I think is of paramount importance to the province.

I am a firm believer in giving every person in the province the right to a university education. Particularly in undergraduate education, I am a believer in the philosophy of getting a sound liberal arts education and then going on to specializations afterwards, if you so desire. The pure knowledge you can get from a liberal arts education is a benefit for the rest of your life, whether or not you get a job out of it or it has application to where you end up in the work force.

Coming from northern Ontario as I do, I have real concerns about the lack of university education in northern Ontario and the impact that has on the long-term economic development of the north. I have talked in the Legislature a number of times about inadequate funding coming to northern Ontario. The total university funding to northern Ontario is smaller than to any one of nearly 10 major universities in southern Ontario.

Lakehead University and Laurentian University of Sudbury are getting $20 million or $25 million per year, and in Sault Ste Marie, Algoma College is funded $2.5 million per year. As a result, 80 to 90 per cent of our university-bound students have to go outside the community to get an education. We do not even have a base to educate the people locally.

There is a major opportunity to support economic development. A major university such as Queen's University is, to my understanding, getting Ontario funding of about $100 million per year. That is a major stimulus to the economy of a community like Kingston, and it is about double the total amount of university funding coming into all of northern Ontario. At the same time, your overall system is facing problems such as a lack of increasing support for the current state of the system. I understand why that would be your main focus today.

On the other side of the coin is the importance of excellence. I think there has been a lack of focus on the supreme excellence of certain institutions, if not overall, at least in certain selected areas, as compared to the American schools. We just cannot compete in graduate studies. My liberal arts philosophy came from my undergraduate days at Harvard University, and I went on to do graduate work at Massachusetts Institute of Technology. I am an example of someone who has seen what I think are two of the supreme institutions of learning and the opportunity one can get from having institutions like those within an area. I wish we had that kind of excellence engendered here.

As a socialist, a New Democrat, I tend to push the need for egalitarianism, and the Canadian system is quite egalitarian. The constant level of funding results in a system where the university system is better than the American one, on average, but we do not have the supreme institutions developed, at least to the extent that some of the American schools are developed.

I do not know how to resolve all the conflicts, but we need funding in all those areas across the system. We need to see it focused on areas like the north where we need economics. At the same time, I would like to see increased funding for the development of real centres of excellence.

Mr. Ashe: You are in the wrong political party. That is your problem.

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Mr. Morin-Strom: How we push all those things requires a real redirection of support to all three areas. One area we have talked about here is support for capital. One of the suggestions I might look at is what has happened in the hospital funding area where there has been a major commitment by the province to about $800 million over the next five years.

Mr. Haggerty: Are you against that?

Mr. Morin-Strom: No, I am not. I want to use that as an example. Hospital funding is done on the basis of two thirds from government and one third from privately raised funding. I wonder if something like that for the encouragement of university capital growth might be an opportunity.

You have also mentioned the fact that alumni associations are so strong in supporting the American institutions. I have to confess a little bit of guilt, because I, myself, on a regular basis, am contributing to two of our American universities.

The Vice-Chairman: Question, please, Mr. Morin-Strom.

Mr. Morin-Strom: Do you think we should be pursuing that type of an incentive system where if you, as an institution, can raise a certain amount of funds, then the government would come in with complementary funding to expand the capital base?

Dr. Earp: There is a certain amount of that now. Several of us have had experience of such recent construction as there has been, and there has not been very much in the system. I am glad that the whole question of capital funding has been raised, because we did not have much time to touch on it. The examples in the past include several in which government funding has been on a two thirds-one third basis. The institution has been required to provide from other sources.

In the case of my own University of Brock, our science building was funded on that basis. Two thirds of the cost was provided by government, and we mounted a campaign to raise the rest.

I think that is now established as a possible model. It is just that it does not happen anywhere near frequently enough in terms of the two thirds of the government commitment.

Dr. Arthurs would like to comment.

Mr. Arthurs: If I could very briefly add two points. First, if you are fortunate enough to be in the position of building a new building on this two thirds-one third formula, you are indeed fortunate. You then have a bill to pay to heat it, light it, clean it and maintain it, and there is no adjustment of your base operating grant to enable you to do that.

Second, there are a number of opportunities being proffered to the university by way of encouragement to participate with government and the private sector in various research and other enterprises. So far as I am aware, up to now there has been no acceptance of the fact that there must be a place to launch those activities. The Ontario university system is so cram-jammed in almost every university, I fear that quite apart from pursuing our educational functions, we would ask you to expand our research, whether in this collaborative research or in purely academic research, which is being severely inhibited by a lack of space.

I think we have a real logjam that has to be broken in the capital area.

The Vice-Chairman: This gentleman moved up when he heard the north mentioned. Did he want to comment?

Dr. Earp: We were delighted that Mr. Morin-Strom mentioned our sister institutions in the north which we, too, are representing, and are very significant components of the Ontario system. In a way, the parallel is closer to, say, my own university which resembles Lakehead University or Laurentian University much more closely than does York University or the University of Toronto--

Mr. Arthurs: Except we are further north.

Dr. Earp:--and with the additional responsibilities that go with their geographical location. It so happens that our executive director, Dr. Monahan, is a some time president of Laurentian University and well versed in the particular concerns of those universities.

The Vice-Chairman: Dr. Monahan, you have the floor.

Dr. Monahan: I might make several comments. First, taking off from the initial remarks of Mr. Morin-Strom concerning the low level of financing of the institutions in the north and the constrictions that puts upon them, the first thing to recognize is that in Ontario, in terms of the level of base support, all institutions are treated in the same way, generally speaking, relative to their size. The small institutions get a lot less than the larger institutions. In its way, that is fair, because to put a very large sum of money into an institution which has relatively small enrolment is to provide disparity of revenue for what, in the first instance at least, is the same sort of activity.

There are two problems. One is efficiency related to scale, and small scale produces economic inefficiency. So there is a question of whether a small institution deserves a higher base level of support because it is small. That problem has been identified since the year one and, in my opinion, has not been adequately addressed. Lakehead, Laurentian, Algoma and Hearst will all tell you that.

It seems to me that the other problem, which is a broader one, is what you intend to do with your university as a regional institution in economic and social development terms. This may cause you to create a rather different kind of university and fund it quite differently, because you expect it to engage, for example, in research which is relevant to the region, but in the traditional institution in southern Ontario, would be research that grew out of a PhD program or a cluster of PhD programs. You cannot produce PhD programs in an institution that has 600 students.

If your public policy causes you to conclude that you should be fostering research in and for the region in the university, what you need to do is to develop a funding mechanism that is appropriate to that objective. Now we are beginning to see that--but just beginning, it seems to me--in the last several years with the allocation of funds to these universities for research purposes, allocations that come outside of the Ministry of Colleges and Universities' general grants to universities in this province. They come from the Ministry of Northern Development and Mines, they might come from the Ministry of Industry, Trade and Technology or they might come from the Ministry of Health. It seems to me this is an issue that needs more careful exploration. End of sermon.

Dr. Connell: Just one comment on the other part of Mr. Morin-Strom's remark and this is the question of excellence. I do not think the committee should leave this hearing with the impression that there are not in Ontario's universities truly outstanding faculty and students, as well. I think what we are trying to convey to you--

The Vice-Chairman: Including presidents.

Dr. Connell: --is a sense of unrealized potential, but there are superb faculty in Ontario's universities competitive with with some of the best anywhere. Within a quarter of a mile from where we now sit, there are four people who currently hold Guggenheim fellowships, which is one of the most prestigious of American awards. It would be difficult to find anywhere in the United States such a concentration of recognition of talent. Quite often, that recognition does come from abroad, not from Canada.

The Vice-Chairman: Good point, Doctor. Final supplementary, Mr. Foulds.

Mr. Foulds: Would it be possible to do with Ontario's university system some of the steps that have been taken with the Swedish university system? For example, the medical school in Sweden was moved from Stockholm to northern Sweden quite deliberately as a policy initiative. Is it possible to make, out of some of our regional universities, whether it is Windsor in southwestern Ontario, or Laurentian, or Lakehead, universities of stature that could legitimately produce professional schools in medicine, or law, or what have you?

1230

Mr. Arthurs: If I could answer very briefly, in the first place, there has been a joint Ontario-Sweden study of the university systems of the two jurisdictions.

Mr. Foulds: Really?

Mr. Arthurs: It has led to some very interesting comparisons and perspectives on policy development. As well, it has led to some linkages. The university of which you spoke, Umea, has recently become linked with my university and one of the research projects gearing up at the moment is a study of the impact of the university on regional economies and trying to develop methodologies for measuring that.

I think that would speak to the points both you and your colleague, Mr. Morin-Strom, raised. As this progresses, we would be happy to make the results available. I am sure Mr. Monahan could provide the report that resulted from this joint Ontario-Sweden study.

The Vice-Chairman: Thank you very much. Karl, it was not until now that I realized why Harvard said no to me.

Dr. Earp, gentlemen, on behalf of the committee, I want to thank you all very much for taking time out of your busy schedules and providing us not only with your briefs but your thoughtful insights and discourse on the state of our universities in Ontario.

Let me conclude by saying on behalf of all members of the Legislature, notwithstanding the constraints you are under, we appreciate the job you are doing and are very grateful for that.

The committee recessed at 12:33 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

BUDGET REVIEW

THURSDAY, FEBRUARY 19, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
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Polsinelli, C. (Yorkview L) for Mr. Epp

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Clerk pro tem: Arnott, D.

Staff:
Bond, D., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Teachers' Federation:
McAndless, D., President
Aylsworth, D., Executive Assistant
Wilson, M., Secretary-Treasurer

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 19, 1987

The committee resumed at 2:09 p.m. in room 230.

BUDGET REVIEW
(continued)

Mr. Chairman: We can get started this afternoon. We have representatives of the Ontario Teachers' Federation with us. They gave us a brief, exhibit 33, which was distributed on February 5. It is being redistributed at the moment. It has been summarized by Mr. Bond on page 3 of your summary of briefs.

We have with us, from left to right, Doug McAndless, David Aylsworth and Margaret Wilson. Welcome. Perhaps you can proceed with whatever comments you wish to make, and then we will ask you some questions.

ONTARIO TEACHERS' FEDERATION

Mr. McAndless: I thank you for the opportunity to present this brief to the committee on behalf of 109,000 teachers in Ontario. You may hear from other members of the teaching profession who are affiliates of OTF. This brief, though, has been put together to represent the consensus and concerns of the entire teaching force in Ontario.

What we want to do is address some of the concerns we have in the 1987 Ontario budget as it relates to the financing of education, both elementary and secondary. OTF wishes to apprise the committee of its ongoing and continuing concern about the level of provincial support for elementary and secondary education. We have seen more than a decade of uninterrupted restraint, which has left a legacy of problems that must be addressed if Ontario is to continue to possess a strong and vital educational system.

The next couple of paragraphs outline the importance of the educational system, and we will return to that thought later on in the brief, but I want to work on the concern we have. Since 1975, the provincial government's commitment to education has faltered. In each year since that time, the government of Ontario's participation rate in the funding of elementary and secondary education has declined. At one time, it was more than 60 per cent; the province now provides less than 45 per cent of the cost of each child's education. We do not believe the government's participation rate can continue to decline, but the figures we have seen so far lead us to expect that, for the 12th consecutive year, there will be a decline in this participation rate.

I would like to emphasize two key points at the bottom of page 2. If this participation rate is allowed to decline further, the stake of the province in elementary and secondary education will be open to question, if it is not already there. Even at the current level, it is no longer possible to provide for equalization through transfer payments. The promise in this province of equality of educational opportunity is simply not being met. As increasing numbers of school boards move to negative grant situations, the ability of the ministry to influence their affairs will be open to challenge.

OTF has difficulty reconciling the recent history of provincial support with the remarks of the Treasurer (Mr. Nixon) upon the recent release of the Radwanski report. The Treasurer characterized the Ontario Study of the Service Sector as "part of this government's continuing efforts to keep Ontario's economy on the leading edge of competitiveness in a changing global environment."

In the content of the report, an entire chapter was devoted to the "Vital Role of Education." That chapter stated, "Education is as vitally fundamental an element of public infrastructure in a new, knowledge-based economy as roads, railways, ports and power sources were in the previous predominantly manufacturing-oriented one."

In another part of that chapter, Radwanski states, "What distinguishes our present situation from the past is that, in a knowledge-intensive world economy, education and knowledge have moved from being among the important contributors to being arguably the paramount ingredients for competitive success."

This report is not someone's statement of the future; it is talking about the present. We are already in that information-based economy. The service sector now accounts for 73 per cent of all employment and 70.2 per cent of the gross domestic product; 80 per cent of all new jobs will be located in this sector.

Radwanski has identified two strategic considerations: One reads, "In the previous industrial economy, the most important inputs were capital and raw materials; in the emerging new economy, the most important inputs are people and knowledge." The other reads, "To compete effectively in a new knowledge-intensive global economy that relies primarily on human capital, excellence in educating our work force is our single most important strategic weapon."

It is the federation's belief that if this government truly wishes to keep Ontario's economy on the leading edge of competitiveness, it should be prepared to provide tangible evidence of the priority it places on elementary and secondary education through the system of general legislative grants.

I stated earlier that provincial participation rates have declined since 1975. In 1983, the government became a minority partner in the educational endeavour. In 1986, the Ministry of Education estimates place the participation rate of the province at 44.86 per cent. The amount predicted at the present time, even with the structural changes in the system created by the extension of funding, would indicate that the transfer payments that have been announced will further deteriorate the participation rate. You will see the table on page 6.

With government participation in the funding of elementary and secondary education in the 60 per cent range, the mill rate equalization plan, used to determine the block portion of the general legislative grants to school boards, is a sensitive and equitable distribution mechanism. However, when the support falls substantially below this figure, the plan is compromised and significant inequities emerge.

As illustrated in table II, the Ministry of Education estimated that in 1984, 84 per cent of the elementary students and 78 per cent of the secondary school students were educated at a per pupil cost in excess of the level recognized for grant purposes. The median cost of elementary was $140 over the

recognized ordinary expenditures, and I will return to that figure. The median secondary figure was approximately $440 beyond the recognized ordinary expenditures.

Revenues beyond the recognized ordinary expenditures must be raised entirely from local taxation. At present, it is doubtful whether the system is even a foundation plan. In those jurisdictions where there are low assessment levels, serious inequities are going to be caused when school boards spend above that amount. This particular situation is going to be exacerbated when funding for Roman Catholic secondary schools is channelled through the primary grant distribution mechanism.

As I said earlier, at first glance it appears to be much better at the elementary level, since the amount in excess was only $140 in 1984. The significance of these data should not be underestimated, however. The greatest disparity in the ability to fund expenditures beyond amounts recognized for grant purposes exists in the elementary panel. Many school boards are so assessment-poor that even substantial mill rate increases produce very little revenue. These boards have little recourse but to establish expenditure levels at or near the amount recognized for grant purposes, whether or not that level of expenditure is capable of sustaining a quality educational program.

The relative inability of many boards to finance per pupil expenditures in excess of the maximum recognized ordinary expenditures means that school boards are relatively less able to respond to program needs in elementary schools than is the case at secondary.

The OTF believes elementary per pupil expenditure levels to be artificially depressed. The amount recognized for grant purposes must be increased substantially so that all elementary school children will have access to a quality educational experience.

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Increasing levels recognized for grant purposes would solve the equity problem. However, unless the participation rate is also increased, more boards wil be placed in a negative grant situation. The immediate concerns of government must be to arrest the incremental transfer of control of the educational enterprise and to begin to work towards the restoration of equality of educational opportunity.

On November 3, 1986, the Minister of Education (Mr. Conway) announced in the Legislature that in 1987, "Operating grants to school boards will total $3,401,900,000, an increase of $177.7 million over the 1986 figure of $3,224,200,000." Funding for separate school expansion will remain outside the principal grant plan in 1987. OTF estimates that 1987 operating grants to school boards, including grants to separate school boards to finance the education of students in Roman Catholic secondary schools, must be increased by an additional $150 million in order to prevent a further decline in the provincial participation rate. That additional $150 million will only prevent a further decline. It will do nothing to commence the restoration towards the 60 per cent.

In the long run, OTF has advocated a gradual action to a 60 per cent participation rate. Critics suggest that this amounts to 60 per cent of an open-ended commitment; that need not be the case. A provincial commitment to move to a participation rate of 60 per cent of the 1986 level of school board expenditures, adjusted annually to reflect increases in the consumer price

index, would address this concern. The participation rate, or rate of support, could be reviewed every five years in the light of expenditure patterns and new initiatives and a new rate struck for the subsequent five-year period. The argument of open-ended funding, we believe, can be addressed.

We have two recommendations:

1. That the standing committee on finance and economic affairs support the inclusion in the 1987 budget, in transfers to school boards, of an additional $150 million to arrest the decline of the provincial participation rate in financing of elementary and secondary education. We would like to see a beginning to restore equality of education by even having more. We believe that is the minimum to stop the erosion.

2. That the standing committee on finance and economics recommend that the government of Ontario increase its participation rate in the funding of elementary and secondary education to not less than 60 per cent by 1991.

In conclusion, Ontario faces a period of radical economic change. Its future depends on the ability of its citizens to adapt to and function in the new, knowledge-based economy. If Ontario is to retain its competitive edge, both government and its institutions will be required to play leading roles in facilitating the transformation.

Schools must provide students with the skills and attitudes required to function in a rapidly changing world, while the government provides the leadership necessary to redirect the efforts of an entire society.

It is important that the government not be seen to be abdicating its responsibility for schools at the very time it requires them to play a critical role in the transformation to an information-based economy.

I thank you for the opportunity to present this brief, and we shall try to answer any of your questions.

Mr. Chairman: Thank you very much. It is a pretty clear statement of where you stand.

Mr. McFadden: This is a very thoughtful brief you have presented to us today. I should tell you it looks as though we are all reading from the same hymn-book in terms of the importance of education.

George Radwanski was here last week and gave us a summary of his study and an excellent overview of his work. Speaking for myself and, I think, all members of this committee, I agree that in an information-based economy, education has to be absolutely central in terms of our priorities in the preparation of our children for the future in which they are going to have to live.

Obviously, the problem we face here as a committee is that we have to come to grips to some extent with how this might be financed and how we will order our affairs to be able to get there.

Could I ask two very specific questions on that? First, with regard to the difference between the per pupil grant between elementary and secondary schools, the Ontario Public School Teachers' Federation which was here with us this morning suggested that the grant ceiling be levelled out. Effectively,

what was proposed was that elementary grants be raised to an equivalent dollar with the secondary school grants.

The Ontario Public School Trustees' Association did not think that was a particularly relevant question in the sense that it felt it was the total financing system that was important rather than absolute numbers. Reading yours, I am not quite clear what your exact position is on that issue and I wonder if you would say what your feeling is. I should tell you that the OPSTA this morning put the price tag for us to do that at roughly a billion dollars.

I am curious to know your feeling about that particular point. I know it is a member of your federation, so I am not trying to create a conflict. I am just trying to get a handle on what the situation is right now and what the federation's view is on that particular issue.

Mr. McAndless: I suppose I should admit a bit of a conflict of interest. Not only am I a member of that particular affiliate but I am also a principal of an elementary school and I know how desperately difficult it is to make ends meet. My budget never quite amounts to what I would really like to be able to do in the schools, so I live with it in the actual sense.

We touched on it briefly in here in the area of the degree of difficulty that elementary boards frequently have in attempting to go beyond the grantable amount of funds in the elementary school simply because they have a lower assessment base rate and, therefore, a mill rate in many municipalities that might be two or three times as much as the secondary mill rate to raise the same amount of money, because they are raising it on a smaller assessment base.

That creates a problem as well. Speaking for the Ontario Teachers' Federation, our concern is that right now funding for education is critical. We believe it has been critical for the last two or three years. The days when people were saying, "Let us cut out the fat," are gone. There is no fat. There are programs that are going and that have been eliminated. There are programs that are being recommended that cannot be introduced in the schools. They simply do not have the staff, money, technology or equipment.

There are so many things that have been put off, put off and put off. We have concern for the overall funding pattern and that has to be number one and the other might be a second one.

Mr. Aylsworth has more technical information. He is the person who does all the research and crunches the numbers for us.

Just a few days ago, I was in a secondary school in Niagara south. It is an old school in serious need of repairs. There is no point in painting the walls on the inside where the paint is all flaked off because the roof leaks, but there is no money to fix the roof; so where do you go? These are actual cases. It is a depressing atmosphere. Not only that, but they do not have all the textbooks, staffing ratios or technical equipment for their shops that they need. Mr. Aylsworth, could you give us some dollars and cents?

1430

Mr. Aylsworth: Just a comment. The billion-dollar figure you mention is a ball-park estimate of what it would require to return to the 60 per cent financing of education. The current bill for education is close to $7 billion and the contributions from the province are now slightly over $3 billion, so

an additional billion dollars would be required to move back to the 60 per cent participation rate.

The second comment is that the problems are not necessarily mutually exclusive. The two problems we identify are with us right now and are immediate. The return to the 60 per cent financing is a target five years down the road. But there are two immediate problems which require your attention. The first one is that the goal of the quality of educational opportunity is not being met. There are students in small schools in remote communities and in assessment-poor boards who are just not getting the same kind of educational opportunity as their more affluent neighbours.

The second comment is also pertinent. The province is in a position where more and more school boards are being put in a negative grant position. The danger of that is you lose control. If the local ratepayer is paying entirely for education, then it is very difficult to get the local school board to heed the desires of the provincial government.

Mr. McFadden: That's the objective of a lot of school boards.

Mr. Aylsworth: To put it in the vernacular, if you are not at least contributing to the wages of the piper, you should not be surprised if he is playing a different tune.

Mr. Ferraro: No matter what hymn-book you are using.

Mr. McFadden: That is right.

Mr. Taylor: You had a good point, but I did not hear the answer to your question.

Mr. McFadden: That is just what I was going to ask. I have a conflict of interest in the sense that I have two daughters in the elementary public school system and my wife is an elementary school teacher. We have to do fundraising for the local school because we could not get any money to enhance our playground.

Mr. McAndless: Have you bought your chocolate bars this week?

Mr. McFadden: Oh gosh, yes. We have a fun fair and everything else to do all this.

Mr. Ashe: Chocolate-coated almonds.

Mr. McFadden: We are looking at all these figures; I am not an expert and I do not think other members of this committee are experts in all this funding. We have perhaps a little more than a layman's knowledge, but we are not experts in education finance.

Mr. Foulds: Neither is the Minister of Education (Mr. Conway).

Mr. McFadden: Is there a need for government to state that the per pupil grant between elementary and secondary should be absolutely even or that elementary should have more or less? I am concerned about whether this is a principle that should somehow be recognized or are there other ways to go at this? The submission this morning indicated that some sort of a principle should be enshrined. I am getting the idea from what you said, let alone what the trustee said, that the equivalence of it is not the problem. You are

saying that there is an overall funding issue here that has to be addressed not just a principle.

Mr. McAndless: I am going to ask Mrs. Wilson to comment in a minute. It is my firm belief that the initial funding patterns for grant purposes were established a number of years ago. They were based on some assumptions at that time; for example, a large percentage of elementary teachers did not have university degrees. Early childhood education from junior kindergarten through to grade 3 had not changed significantly from when I went to school or from when my mother had gone to school. To a very large extent, it was very similar. Today the changes are astronomical. The changes that have occurred in early childhood education over the last 20 years are unbelievable.

Because of the changes that are transpiring and taking place in the group of teachers and the kinds of expertise they need, the training that they have and the kinds of teaching that are expected to take place in the primary level, the original funding patterns are no longer applicable. They simply are not.

As I said, I am the principal of an elementary school. I cannot do the things I know I should be doing. My parents are often very happy, but that is only because they do not know what we could be doing if we had the funds and the staff to be able to provide that. In my opinion, to say very flatly that they should be even is not a particularly meaningful statement, because you could fund both of them totally and adequately and you will not have accomplished anything. To be quite honest, we are of the opinion that, at the present time, the government's participation rate is such that the entire system is inadequately funded. So there needs to be more funds.

We also recognize the realities of budgeting and the financial climate. To ask for an additional billion dollars in one year is very unrealistic. It is not going to happen. What we have tried to do in this particular presentation is modest. Believe me, there were people who felt we should be asking for at least $300 million--I was among them--to start to move to redress, not just stop, the erosion, but to start pushing the train back up the hill. I do not know whether that has helped you, but I think Margaret can comment further.

Mrs. Wilson: Since you have mentioned hymn-books-- I think all too often when the question is asked, you are really saying to us, "How do we rob Peter to pay Paul?" Bluntly, from our point of view, the question is not one of robbing Peter to pay Paul because we can show you that, in a large part of the province, your secondary schools are falling down. We can also show you that your primary programs are underfunded. I am a secondary school teacher, but I have a kid in grade 4. She has a math book which has not had any cover since the day she got it, and we are supposed to be teaching her to be tidy and all the other Christian virtues--no, it was cleanliness that was a Christian virtue, not tidiness.

Mr. Foulds: Tidiness is pretty close.

Mrs. Wilson: I have got my virtues wrong.

We are really saying to you: "We are the teachers. Would you please tell us whether you really believe that education is a priority." I am serious about that. We are saying to you that we understand that you cannot change 14 years of history in one year. We are saying to you that we understand the economy is undergoing a radical change. We understand everything the

researchers are telling us about how critical education is to the new economy and the future of this province. We do not believe that you are serious about our role in it, because nobody will grapple with the fact that we are so drastically underfunded in all sectors of education that we cannot cope with the task you are giving us.

That is a very large thing to say to you, because it would be much neater if I came and said: "Give us this formula and it will fix the problem. Bring elementary up to the same dollar level as secondary." That is right. In fact, the dollar levels have to relate to, not the program that is there, but the program you want and the program you think the kids deserve and society needs. There is no problem in demonstrating to you that, in every sector for a variety of reasons right now, we are starving and, in particular, at the primary level. Classes are large--and I am a secondary teacher--the books are old and the materials are not there. That is just straight fact and you can go school after school after school.

Junior is a bit like the general level at secondary. It is the middle child who gets ignored. I think we are here partly because we would like you to grapple with where you think education is in the priorities of the province. I really plead with you to try to do that and to try to think beyond this year and see whether or not we can, in fact, rectify the situation. We are willing to talk about how to do it. We do not have a nice formula as an answer for you.

1440

Mr. McFadden: I would compliment you on your brief. I think you are very rational and practical about what you are asking for during a one-year time space. Obviously, we cannot today come up with those formulas and everything else to solve it in the next 10 years. I appreciate your doing that.

The interesting thing in our process here, just to tell you, was that we have had delegation after delegation come in here. The roadbuilders told us it is time that education and health care took less because they felt our roads were all going to pot, and presumably you could not get to the schools if there were no roads, or ambulances might disappear into the cracks on the highway, so what is the sense of having hospitals? That was the kind of thing we got. Other groups have made their points. I think, though, that education puts out a very persuasive case.

One question--and I will end at this because I know other members have concerns--is about the 60-40 split between the province and the local taxpayer. There is no doubt about it that property tax is not the appropriate way to finance education because it does not relate to people's ability to pay, their welfare and anything else effectively. It just sort of sits on these people, and it make sense that it should be in the area of taxation or the ability to pay that you are essentially collecting.

In so far as getting to the 60-40 situation, are you proposing that we leave realty taxes they way they are and simply increase the amount that the province is putting in, or are you suggesting we cause some reduction in local taxes and an increase in income and corporate taxes to compensate? I am just curious to know what we are talking about. Are we talking about spending more money to get up to the 60 per cent or, in your thinking and in how you are developing your models, are you also thinking we would give a break to local property taxpayers so they will see the benefit of going ahead with the 60-40 arrangement?

Mr. McAndless: There are two aspects. First, the increased expenditure ceilings are too low at present. In other words, the amount the province even recognizes for grant purposes is too low because it does not reflect the real cost of education at the local level regardless of the tax base. We feel that has to be raised.

Second, we believe that the government has to begin to move towards the 60 per cent. As that swings, school boards will be able to gradually reduce the amount of increase in the property taxes, so it swings. Again, it is going to be a very gradual swing. It has taken well over a decade to get to the position it is right now.

The problem that we foresee is that, without the province increasing the expenditure ceilings and beginning to increase its proportion of the percentage of education that it pays, those assessment-poor boards--there are some boards that have virtually no assessment--are not able to provide an equitable educational program. They simply cannot compete with boards like Metro Toronto, London and so on. They do not have the tax base; therefore they cannot go above the expenditure ceiling and therefore their programs suffer.

Mr. McFadden: You say there are some boards with no assessment base at all.

Mr. McAndless: There are some. Those are virtually funded totally by the province.

Mr. McFadden: Are those northern boards mainly?

Mr. McAndless: They are isolated boards. Yes.

Mr. Aylsworth: First of all, the 60-40 split does not come out of somebody's hat. That is the rate at which the government would have to contribute in order to make the equalization formula--the mill rate equalization plan--function in a reasonable manner. The disparity in the ability to raise local taxes is so great that it requires a substantial effort on the part of the province so that there is equality of educational opportunity across the province. At 60 per cent you are providing enough money that you have more than a token contribution in all communities, including even the wealthiest.

The second comment is that the increase to the 60 per cent level would not occur overnight; in the paper before you we advocate a five-year period. Certainly, if you were to provide a massive infusion of money to local school boards, their behaviour would be all over the map. Some of them would expand their programs, some would pocket the difference and so on and so forth. If it is done over an extended period, I would suspect what would happen in the majority of communities is that further increases to ratepayers for education would not occur. In some communities they are paying as much as 70 per cent of their property tax bill towards support of education. Gradually this could return closer to a 50-50 split between schools and municipalities.

With respect to where the revenues would come from, we have not discussed this widely, but our predisposition is to say that the retail sales tax is just about at its limit. You might get a little bit more per point. The gains are not that much greater, and there is not that much to be made. But it is our perception that corporations are not bearing as much of the burden as they could well afford to bear.

Mr. Foulds: I have a couple of comments. Let me declare all my conflicts: I have kids in the school system, I used to be a teacher and I am going to be a teacher again.

Interjection: So they will all be friendly questions.

Mr. Ferraro: You should be shot.

Mr. McFadden: Next member.

Mr. Foulds: Nevertheless, I have a couple of comments and a couple of questions. The first comment is that it is ironic that the only period in history when the provincial percentage of participation in funding for school boards was 60 per cent or more was just before the fall of a majority government. Basically, you have had minority government since then and a reduction in school funding. I do not know whether that is a comment on the relationship between the political system and the educational system or not.

The other thing is, having kids in the school system, especially in the last couple of years, has really brought home to me the veracity of what you are saying about the equipment and the state of textbooks, particularly in the elementary school system and even into the high school system. One of my kids was using a book that I am sure I used 25 years ago in the school system.

I have a couple of questions. Your brief has concentrated on two things; one is the return to the funding. I think the recommendations are realistic in that they are attainable; $150 million is a lot of money, but it is not unrealistic. Achieving the 60-40 split in a five-year or six-year period is also a realistic objective if there is the political will to do that.

The question I want to ask you, though, relates more to your emphasis on the information-based economy and service jobs. It seems to me that Ken Dryden actually made a very acute observation in his report; that is, there is no use training people and educating them unless you also have a government dedicated to a full-employment economy, because a lot of the service jobs in the growth of the service jobs are part-time, and they are, frankly, relatively low-paying. Do you have any comment on that?

Mr. McAndless: In the service-based and, in particular, the knowledge-based jobs, I believe Canada, because of its past status in the educational system, has positioned itself well to be on the leading edge, to compete with the United States, to compete with the Orient and various other countries that are moving in that area. We are poised at this point and we have the mechanism in place, as long as we do not let it deteriorate, to compete on a world market.

Mr. Foulds: Basically, you are saying the structure is still sound and the basis of the educational system is still pretty good.

Mr. McAndless: It is still there and it is still sound. With the infusion of money gradually over the next five or six years to get back to the position we believe the government should be in, it is our belief that Canada, and in particular Ontario, can compete on world markets in this area, maybe far more so than we could industrially. Seven years ago, Canada was in the forefront in education. We have slipped a little bit in the last few years. I think we can return there rather quickly.

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Mrs. Wilson: Can I expand on what Mr. Foulds is asking? I think part of what Mr. Dryden is talking about in his report is based on rapidly changing information. One of the things that has happened in the United States is that the number of jobs that were expected in the unskilled service sector has not materialized. However, the number of jobs in the skilled service sector is increasing beyond the number of employees trained to take the jobs.

I am looking at the secondary schools, the sector of education that you, Mr. Foulds, and I come from. I do not mean to concentrate on them because, of course, the kids come from the elementary panel. I think what continues to worry us as teachers is that when we look at international comparisons--for instance, the international math project--we continue to do very well with the students we send into the university and skilled-level community college programs, and with a larger number of those kids than we managed to do well with in the 1950s and 1960s.

However, we have a stream of students coming through the middle with whom we are still struggling. If I read Ken Dryden's report and the skilled sector report, one concern is that we have to plough more resources at both the elementary and secondary levels into figuring out what to do with the kids of average and above-average intelligence who, because of a variety of problems in their homes or in their own intellectual development, do not do as well as we might expect.

To move to a full-employment economy--which is an economy in which we not only share the work, but in which people are trained to have meaningful work, not make work--we have to put sufficient resources into figuring out what to do differently with these kids so they can succeed. Right now we have sort of mutual frustration in both the teachers and the kids and, in fact, a dropout rate that I do not think the province can, in the long run, manage socially.

I do not think we can divert resources there because the other areas are doing well because they are managing. There are very real concerns among all of us that if we do not get resources in there we not only have collosal wastage and a massive social problem, but we lack the employees to move the province forward in the sort of middle to lower upper-end of the skilled sector.

I do not think it is difficult to demonstrate that we know where the problem lies, but we do not have the solutions to it now. The solutions have to be in the educational system if the skilled sector is decribing accurately its needs.

Mr. Foulds: I have forgotten since the years ago when I used to be the education critic for their party what limit is put on recognized ordinary expenditure.

Mr. McAndless: Do you want the dollar limit?

Mr. Foulds: Yes, if you can.

Mr. McAndless: In the secondary panel it is $3,445 and in the elementary panel, I do not know--$2,500?

Mr. Foulds: That is okay. What I gather you are arguing there is, if the board spent say--let us take the secondary figure because that was one digit--$4,000, then all of the expenditure above that has to be raised at the local level?

Mr. McAndless: Yes. 100 per cent.

Mr. Foulds: So, part of your brief is therefore saying that boards with a good assessment base, with lots of industrial base, and so on, can more easily meet the needs of their students than a rural school board that has very little industrial or commercial base.

Mr. McAndless: We are saying something else, too. We are saying that the level of recognized ordinary expenditure is artifically constrained by the amount of money the province is putting in. Very simply, the disparity factor to raise dollars in the elementary panel, for example, three years ago was 22. The richest board could raise money 22 times as easily as the poorest board. The end result is that if you move the ROE up a dollar and the disparity is 22, to provide the extra dollars to the poor boards you are going to drive the wealthy boards down and, at some point, below zero and into a negative grant situation.

We have that in the city of Toronto now. It is only the flat dollar figures for special education and grants that come out on a per pupil basis that save that. But you cannot raise the level of the ROE or you are going to drive the grant situation in places like Metropolitan Toronto into a position where the kid shows up and the local school board has to send you a quarter.

Mr. Polsinelli: On this whole question here, I do not understand very much about the whole educational system. Maybe you gentlemen can help me. I was doing some quick calculations on table 1, on page 6, dealing with the percentage contribution of local government and the provincial government towards the educational system. I notice that from 1985 to 1986 we went, in absolute expenditures, from $6,796,000,000 to $7,276,000,000. That represents an increase of 7.06 per cent. I borrowed Mr. Ferraro's calculator and just calculated that. In provincial support, we went from $3,168,000,000 to $3,264,000,000, which represents an increase of 3.03 per cent.

If I recall, in 1985-1986 inflation was at about four per cent, so if we look at it in absolute terms, to maintain the status quo the government would have had to put in perhaps one per cent more than the three per cent. But, by the same token, were the school boards not spending three per cent more than the actual inflation rate in total terms? In absolute terms, were they not perhaps spending more than what was required to maintain the status quo? Given an era of declining enrolment, why is that?

Mr. McAndless: You have to realize a couple of things happened there. We were financing an additional year of separate secondary school education. That was the last year for school boards to have in full implementation the special education that was mandated. We have new programs being added from a provincial perspective, additional demands placed on the school boards by the province and yet no additional funds to the school boards to meet those kinds of expenditures. That is a part of it.

Mr. Polsinelli: You are saying the Ministry of Education required additional programs but did not supply the additional funding?

Mr. McAndless: The programs and expectations that have been laid on the school as part of the program over the last decade would take at least a page to list. There has been one provincial initiative after another added to the educational program, and in most instances, either no funding or only limited funding.

For the last 10 years, many of the school boards have had almost nothing in the way of capital grants for repairs on building. After 10 years, the physical state of many of the buildings is such that the board, whether it has the money or not, either has to put roofs on the buildings or let them fall down.

Mr. Polsinelli: Let me see if I can understand this. You say that within the past 10 years the province has been telling the school boards to increase the number of programs they have, increase their expenditures and, at the same time, has not provided additional funding?

Mr. McAndless: Absolutely.

Mr. Polsinelli: It has been telling the school boards not to maintain the status quo?

Mr. McAndless: Yes. It has been doing this in demands and doing that in funding. One has been going up and the other has been going down.

Mr. Aylsworth: In fact, the document produced by the Ministry of Treasury and Economics illustrates that the property tax for education alone has been increasing an average of nine per cent since 1981. Given the inelasticity of the local property tax base and the kind of pain that causes the local ratepayer, I can assure you the boards are not doing that just to exercise frivolous concerns.

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Mr. Polsinelli: I am not suggesting they are frivolous concerns. The only point I was making was that effectively the school boards were spending more than the rate of inflation would have allowed them to spend to maintain the status quo.

Mr. McAndless: Yes.

Mr. Polsinelli: If that is the case, then why were they doing that? If inflation required them to spend only 4 per cent, why were they spending seven? I accept your answer as an answer.

Mr. McAndless: There are a variety of reasons, but believe me, local trustees do not increase the taxes unless they absolutely have to. Those are our bare minimum to meet the standards.

Mr. Taylor: If I can have a supplementary, Mr. Chairman, the unfairness is compounded when you get into the rural areas and into the farm communities, where agriculture is very depressed right now and we are suffering very difficult times. You are getting a bigger and bigger transfer to the local taxpayers of the real property bills in the farm communities.

I am not just talking about the farmers--I appreciate the tax rebate and so on for the farmers--I am talking about the rural area in general. It becomes very punishing to those people. Do not think they are very receptive to all these mandated obligations that come down from this place. We have to struggle with those. We are told, on the one hand, to implement them; on the other hand, there is not the money to put them in.

The sooner we get back to that 60 per cent the better, as far as I am concerned; also an adjustment of that gap. I do not think they are mutually

exclusive. I think, directionally, you go the same way. If you are closing your gap at the elementary level that is fundamental in terms of the youngsters, bringing them up in a technological computer age. It is important to have the kind of equipment we never dreamt of before when we went to school. They need it; they have to have this.

You have to close that gap. It is important that you have better attention for those youngsters. Directionally, you have to close that gap and increase that to 60 per cent, in my view. In terms of the priorities of this committee, it is amazing how government can come up with money for other programs. I do not have to take you to Bill 30 and things like that. There are other policies that all parties support and, eureka, the money is there. For something like this, here we are struggling with where are we going to get this and where are we going to get that, when we are talking about a $1-billion surplus in our budget.

Mr. Polsinelli: I agree with a lot of the things you say. I accept the explanation you have just given of the past 15 years of underfunding.

Mr. Taylor: Not only that, but the Premier has already (inaudible) this increase.

Mr. Ashe: And worse in the past two years.

Mr. Chairman: There will be lots of time this summer for political debate, but we are listening to--

Mr. Taylor: Political debate? That is a persuasive argument to influence the report of this committee.

Mr. Chairman: We have had a very persuasive argument. Are there any other questions?

Mr. Morin-Strom: Just one brief one. The thing that really concerned me is when you mentioned this 22 to one factor. Does that mean that if a board wanted to raise--

Mr. McAndless: A wealthy board can raise $22 and a poor board can raise $1 on the same equalized mill rate.

Mr. Morin-Strom: Is that not an area the government should be addressing and adjusting with some kind of an equalization formula or something to ensure that the mill rate base from commercial and industrial sources within our economy is spread equally around the province and not concentrated so heavily in certain communities?

Mr. McAndless: I think that is the point David was making.

Mr. Aylsworth: The mill rate equalization plan is a transfer mechanism from government to school boards. It is intended to do just what you say, to produce the same net effect locally for each mill of equalized assessment, no matter where you live. Communities with a large tax base get relatively small grants and, indeed, certain locales, such as the city of Toronto, get negative grants, while communities with very little ability to raise money get 99 cents on the dollar.

Mr. Morin-Strom: But you are saying it is not working at the marginal level. At the current property tax level, for an extra point of mill

rate right now, the 22 to one is still what is happening.

Mr. Aylsworth: The problem is that it works up to the level of recognized ordinary expenditure. It is that band above it, those expenditures that fall totally on the local ratepayers, in which the discrepancy exists. We are pointing out that virtually all the students in the province are educated at that level of expenditure; hence, the disparity is very much there. That is why the equalization mechanism requires attention and a massive infusion of capital.

Mr. McAndless: The other thing is they were designed to function at the 60-40 split. That is why we keep coming back to that. Raise the expenditure ceiling and get to the 60-40; then the other problem is solved.

Mr. McFadden: May I ask one brief question? I know that all three of you travel around the province and are from different areas. So far this week and last week, we have met a lot of people in the health care system, education, roadbuilding and so on, who feel they are underfunded. Have you run into anybody who is overfunded? We could try to figure out how to get them out of the budget.

Mr. McAndless: If we find them, we will let you know.

Mr. Foulds: The other comment I was going to mention was I have a lot of sympathy with the roadbuilders, having totalled my car on an inadequate highway in northern Ontario.

Mr. Ashe: I heard it is because of the way you drive.

Mr. Chairman: Mr. McFadden has summarized our problem. We have 59 briefs, and the only ones that are not asking for more money are those that are insisting we cut the deficit.

Mr. Foulds: Think of the thousands of people who have not made representations.

Mr. Chairman: In any event, we do appreciate your coming and giving us your point of view. As you can see, it has been canvassed thoroughly already by the committee, and I am sure it will be taken into consideration.

Members of the committee, I have an announcement to make, and I make it with a real mixture of emotion. It is very seldom in life that one gets to work with somebody who is thoroughly competent and a perfect person to deal with in every respect. I have had that opportunity for the past several months, but I have to announce--and I suppose it is partly because when people like that come along, they tend to be seen and taken away from you--that David Bond is leaving us with this meeting.

He has been approached by the Ministry of Industry, Trade and Technology. I should indicate that they approached him; he did not approach them. In March, he will become the new senior commercial representative at Ontario House in Tokyo. You may know that David came to us from the Japanese consulate in Toronto. He is fluent in both Japanese and English, so it was obvious that he was somebody who was on his way up. We really appreciate the work you have done with us.

Mr. Ferraro: I thought your dog died.

Mr. Chairman: No, it is worse than that.

Mr. Taylor: He has roots in Prince Edward county. I guess there has got to be something good that comes of that.

Mr. Chairman: Yes.

Mr. Ashe: As soon as you started the way you did, I unfortunately perceived what you were going to say. I agree with you. You have obviously had more direct day-to-day dealings with your namesake--first name, anyway--than the rest of us. I was not on the select committee that led up to this committee, as you well know, but it was quite obvious to me about the second week I was around this committee that David would not be with us too long. He was obviously much superior in his level of intelligence to the job, and probably, with due respect, to virtually everybody around this table.

This committee will be the loser, but undoubtedly, having also had one experience in going to that trade opportunity and trade mission in Tokyo, I know it is a challenging one and an interesting one. It is definitely a different way of life, but David will bring with him the experience and background and knowledge that will stand Ontario and Canada in good stead over there. We wish him well.

Mr. Chairman: I agree with you that not only is he probably head and shoulders above us all intellectually, but also he is a very easygoing person to deal with and very personable.

Mr. Foulds: Before this gets into such an embarrassing lobbying for our researcher--

Mr. Chairman: I should say that I found he used to whisper things in my ear and I would start to quote him to the committee, until he whispered that I was not to do that. I was appearing quite brilliant for a while and that will all disappear perhaps.

Mr. Ashe: I hope he gives us the answer to the $11-billion crisis before he goes.

Mr. Bond: I am working on that.

Mr. Foulds: Can I move, on behalf of our committee, a vote of thanks to David for all the work he has done for the committee, both in its present incarnation and as the committee on free trade?

Mr. Ferraro: Is this a recorded vote?

Mr. Foulds: Yes.

Mr. Ashe: I will second that.

Mr. Chairman: Any discussion? All in favour? Opposed? Carried.

Good luck.

Mr. Bond: Thank you very much.

Mr. Foulds: The sirens are going off just at the right moment. They are coming to get you.

Mr. Chairman: Any other business?

Mr. Foulds: When do we meet again?

Mr. Chairman: We meet again in the week of March 23.

Mr. Morin-Strom: The week we are going to Washington, or are we going to Washington?

Mr. Chairman: The subcommittee is meeting right after this meeting.

Mr. Ashe: Before we adjourn, could I ask that, as soon as things are finalized in terms of the trip, in terms of our first week's agenda when we are back that week, we can be aware of it so that we can plan our calendar accordingly, particularly if and when we are going to travel and that kind of thing, rather than leaving it for when we get back?

Mr. Chairman: Perhaps it would be appropriate for the clerk's office to forward minutes of the subcommittee meeting that is going to occur immediately after this meeting to all members.

Mr. Ashe: Thank you.

The committee adjourned at 3:13 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

MONDAY, MARCH 23, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Association of Municipalities of Ontario:
Hopcroft, G., Co-Chairman, Fiscal Policy Committee; Alderman, City of London
Hipgrave, D., Member, Fiscal Policy Committee; Director, Corporate Planning Division, Metropolitan Management Services Department, Metropolitan Toronto
Forbes, R., Chairman, Large Urban Section; Alderman, City of Burlington
Rice, W., Administrative Vice-President; Chief Commissioner, City of Sudbury
Guiler, A., Co-Chairman, Fiscal Policy Committee; Clerk-Treasurer, Town of Palmerston

From the Ontario Chamber of Commerce:
Sanderson, J. A., President
Eastman, D., Committee Member, Economic Policy Committee
Murray, P., Chairman, Economic Policy Committee

From Dickie Dee Ice Cream (Canada) Ltd.:
Carter, P., Independent Distributor

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, March 23, 1987

The committee met at 2:04 p.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: I see a quorum.

Mr. Ashe: (Inaudible) and they are still not here.

Mr. Chairman: You and I would have been ready to go at 8:30 this morning, would we not?

Mr. Ashe: I was here at 7:35, I will have you know.

Mr. Chairman: Welcome back. I hope you have all had a good break and are ready to work hard, because we have a very tight schedule for the next several weeks. This week of course we have to conclude our prebudget hearings so we can be prepared to start writing our report to the Treasurer (Mr. Nixon) next Monday. As well, we will have some interesting facts to report to you later today with regard to some of the other matters on our agenda prior to the House reconvening.

This afternoon, we have three presentations, and the clerk has reminded me to try to stay on time, so I will try to do that. First of all, we have the Association of Municipalities of Ontario, followed by the Ontario Chamber of Commerce and thereafter by Dickie Dee Ice Cream.

The members of the committee will have received only today the exhibits numbered 2/06/75 and 2/06/74. The AMO exhibit is 2/06/75. It was mailed to the committee apparently about a week ago but unfortunately was received in the clerk's office at only 1:30 this afternoon. I suppose we have the federal post office to blame for that, and I apologize to the witnesses in that the members of the committee have not to the present time had a chance to read the memo. Perhaps you can lead us through it.

Before you do that, I should also indicate to the committee members that they have in front of them prebudget hearing summaries of those presentations that were available up until today. These summaries were done by Ray McLellan, Anne Anderson and David Bond of the research office. Those presentations are extremely valuable to us in view of the fact that we sometimes get snowed under with actual briefs. The three presentations we have today are not in that booklet because they were not available at the end of last week.

Gentlemen, perhaps you can first identify yourselves and your title with AMO, for the purpose of the record, and then if you would care to take us through your brief, we have a total of about 45 minutes.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

Alderman Hopcroft: My name is Grant Hopcroft. I am the co-chairman of AMO's fiscal policy committee and an alderman in the city of London. To my left is Bill Rice, who is administrative vice-president of AMO and chief

commissioner of the city of Sudbury. To his left is David Hipgrave, a member of the AMO fiscal policy committee and with management services, Metropolitan Toronto. To my right is Rob Forbes, who is chairman of the large urban section of AMO and an alderman in the city of Burlington. You will also be hearing from Albert Guiler, who is a co-chairman of the fiscal policy committee and clerk-treasurer of the town of Palmerston.

If I might, I will begin by thanking the committee and the minister for initiating the prebudget consultation process. This is something that AMO has looked forward to for many years, and we are most pleased to be able to participate in this type of process prior to the announcements in the budget. The presentation which we have will be divided into several parts. You will be hearing from each of the members I have introduced.

As many of you are aware, AMO is an organization of municipal governments united to promote the values of municipal government in the intergovernmental framework of Ontario and Canada. The association speaks for its 700 municipal members, and the board of directors as its governing body between annual conferences runs the affairs of the association with representation from its 78 elected and appointed officials. We have sections representing all facets of municipal government and many association affiliates composed of various employees and professional associations made up of municipal administrators and administrative people.

The submission which we are presenting today represents the collective viewpoint of municipal government on the economic policies of the government of Ontario as they impact municipal government operations. AMO's comments are developed in the context of federal, provincial and municipal financial arrangements, the Ontario economy and provincial government revenues and expenditures as noted in certain chapters of the document Economic and Fiscal Review, Province of Ontario.

AMO urges the government to review the level of transfer payments to municipalities and increase them in accordance with rising municipal expenditures. AMO is aware that levels of financing have improved a little over five per cent for 1986. However, municipal government expenditures increased at a rate of 7.9 per cent in 1986, inclusive of educational expenditures. These rising municipal expenditures are the result of increased local responsibility for new programs, new regulations and legislative obligations plus increased school taxes.

We would like to focus on examples of this financial impact of new programs and legislation on municipal government. At this point, I call on David Hipgrave to deal with the first few recommendations before you in our brief today.

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Mr. Hipgrave: With respect to the issue of transfer payments to municipalities, AMO is concerned that these transfer payments keep pace with municipal expenditures. In 1986, municipalities received a 5.4 per cent increase in transfer payments overall, including conditional and unconditional grants. While this was above the provincial inflation rate, it did not keep pace with municipal expenditures, namely, 7.9 per cent in expenditures or 7.3 per cent in taxes.

The increases in expenditures were primarily for two major reasons: first, the increased responsibilities of municipal governments that were

legislated by the province, specifically referring to such things as the Environmental Protection Act, proposed pay equity legislation and changes that were made under the General Welfare Assistance Act; the second reason for increased expenditures at the municipal level was educational costs that increased at nine per cent per household in the province last year versus a 7.3 per cent increase in taxes.

While AMO over the years has consistently requested the province to determine a mechanism by which it can remove educational costs from the property tax base, in the meantime it has proposed that the province should return to the 60-40 per cent target funding for educational costs, 60 per cent provincial and 40 per cent municipal.

In summary, the first recommendation asks the province that transfer payments to municipalities be greater than the current rate of inflation.

Second, AMO would like to thank the province for the recent improvements in grants announcements, the timing of the grants announcements and indeed the mechanisms for cash flows to municipalities, which have been significant improvements over the past several years. AMO also requests that any changes, particularly mid-year changes proposed to programs by the province, should be consistent with the budget process rather than in mid-budget process when most municipalities' budgets have already been struck.

Third, with respect to the unconditional grants program, AMO has been working with the Ministry of Municipal Affairs on improvements to the unconditional grants program and is pleased with the progress made to date. AMO thanks the province for the 1987 unconditional grants announcements that gave municipalities an unconditional grants increase of 4.9 per cent over the previous year. Indeed, most of AMO's proposals were adopted in the 1987 announcement.

AMO is asking the province for increased funding in this program, and in particular, inclusion of the police per household grants in calculating the levy base for the general support grant and the northern support grant and continuing the reduction of the REG, the resource equalization grant, to approximately 10 per cent of total funding in this program, with more reliance on general support and the per household grants.

A corollary issue with respect to transfer payments is the pay equity proposals. AMO supports the implementation of pay equity and believes that municipal government should also contribute its share of the costs to address systemic discrimination.

Pay equity costs for municipalities have two components: (1) an upfront administration cost and (2) the pay adjustments that result in long-term impacts by program. The most highly impacted groups within municipalities will be such categories as nursing attendants, registered nurses, public health nurses, day care workers, social service workers and office workers in all cost-shared programs.

In summary, the cost of doing business is going up because of pay equity proposals put forward by the province, and AMO is asking the province to recognize this in transfer payments to municipalities, particularly in the cost-shared conditional grant programs.

Alderman Hopcroft: I would like to call on Mr. Rice to present the recommendations contained in sections 4 and 5 of our brief.

Mr. Rice: The deterioration of such basic local services as sewers, water and roads is a major problem confronting municipalities. Just earlier this month, AMO representatives urged the government to allocate more dollars to municipal road, water and sewer projects.

Our first recommendation is that the provincial government review the current municipal road funding deficiencies with a view to increasing significantly Ministry of Transportation and Communications allotments to the municipal roads program and to the municipal improvement fund.

Deterioration of the municipal road system has been well documented. In addition to our association, the Federation of Canadian Municipalities, The Road Information Program of Canada and the Ontario Good Roads Association have all called for an increased financial commitment for roads. During the early 1980s, the government of the day reduced municipal road subsidies in response to health and social service priorities, resulting in the current shortfall of funding, which has resulted in lower levels of maintenance and deferral of required reconstruction.

Many municipalities have had to spend 100 per cent dollars in an attempt to maintain their programs. The poorer municipalities developed a "rob Peter to pay Paul" philosophy; that is, they used the limited increases in the subsidy to offset the inflationary increases for mandatory maintenance items. This resulted in fewer dollars for capital improvements and construction and a further deterioration of our collective investment in the infrastructure.

We believe a review of the municipal funding deficiencies should be a priority of the government. As well, we are also concerned with the funding level of the municipal improvement fund. You will recall that last year the government announced a $60-million special fund for municipal improvements. Of that, $30 million was allocated to roads and another $30 million to urban transit. We were advised earlier this year that $30 million would be allocated again in 1987-88 for this fund, but there has been no mention with regard to urban transit. We believe that, once established, the integrity of this fund should be maintained and that it should be maintained at least at that $60-million level.

The next recommendation the association wishes to make is that the government should phase in future environmental improvements with significant cost components pending financial agreements. The future costs of the municipal-industrial strategy for abatement program are of concern to the municipal sector. AMO supports the emphasis on environmental cleanup. Municipalities currently operate 42 per cent of the sewage treatment facilities in this province. However, funding for the programs to upgrade existing municipal plants and for major expansions will be necessary from the government of Ontario if we are to meet these objectives. Municipalities will also incur costs to monitor indirect discharges and the cost of environmental assessments.

Our additional recommendation in this area is that Ontario pursue a trilevel financial agreement for infrastructure, exploring avenues such as federal-provincial transfers for job creation and economic development, exemptions of municipal infrastructure from federal sales tax, loans to the provinces from the Canada pension plan and similar arrangements.

AMO agrees with the Honourable James Bradley's statement that rehabilitation of Ontario's sewage treatment systems requires federal funding. We believe that a new federal-provincial-municipal financial agreement is

required. While the federal minister has indicated that he shares concerns regarding municipalities' deteriorating infrastructure, he has also suggested higher user rates as the financing mechanism. We disagree with this simplistic response.

AMO recognizes that municipalities will have to increase their portion of funding, and this in itself will place a further burden on user fees and on municipal taxes. AMO has always suggested that regional economic agreements and job creation programs could be utilized for the dual purposes of stimulating the economy and infrastructure rehabilitation. Earlier this month, at our meeting with the cabinet, the Premier (Mr. Peterson) agreed to place this issue at the next first ministers' conference.

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Mr. Guiler: Continuing on with the issue of the development in waste management in Ontario, since the creation of the Ministry of the Environment in 1972, the regulatory framework surrounding municipal waste management has become increasingly complex for municipalities and the preparation of waste management master plans marks the beginning of an extremely long and expensive process.

In the past few years, the preparation of a master plan in the village of Milverton and the townships of Mornington, North Easthope and South Easthope, representing a combined population of 8,500, cost $85,000 or $100 per person to complete. At present, the county of Wellington is spending upwards of $273,000 for the same plan. The city of Kingston and the township of Kingston joint management study is currently estimated to cost $465,000 for the plan only. Finally, the municipality of Metropolitan Toronto recently found its master plan could cost upwards of $10 million.

Ontario provides funds for up to 50 per cent of the cost of developing waste management master plans, but once the municipality has completed the plan and obtained the necessary approvals, the municipality is faced with the reallly big ticket item, the capital costs of constructing a new landfill and/or energy-from-waste management.

The association notes the existing program under the Ministry of the Environment provides assistance for 50 per cent of study costs for waste management master plans for regional municipalities or a group of municipalities which agree jointly to operate a facility. There are only limited funds for upgrading existing sites. However, as illustrated by AMO, the costs associated with siting and building a waste management facility are much beyond the scope of these existing programs. We hope the members of cabinet will give serious consideration to AMO's request for a more comprehensive grant program.

On this basis, AMO would make the following recommendation:

As the protection of the environment is of interest to all, the association urges the government to provide a comprehensive funding program for all aspects of waste management: waste management master plans, site assessment and approval processes and capital construction.

Alderman Forbes: The two parts of recommendation 7 in our brief deal with social services, and I should say as a preamble that we recognize the whole welfare system is now under a study that may result in a totally new system. What we are addressing are some problems that exist in the system now

that are going to have to be tackled by either the municipalities or the province over the next fiscal year.

First, the Association of Municipalities of Ontario recommends that the provincial government significantly increase funding for social programs in the light of recent program announcements and regulatory changes.

The 1987 provincial initiatives for improving our welfare system and the implementation of day care funding policies will increase municipal social service budgets.

Social assistance benefit increases announced in November 1986 are cost-shared with municipal governments and will add to municipal budgets.

This April, many could be added to welfare rolls as a result of the "spouse in the house" rule, which makes individuals in unwed couples eligible for assistance. Also to be enforced in 1987 are changes to the day care subsidy plan which will require municipalities to charge the full cost of day care for many previously provincially subsidized spaces or, alternatively, to provide 100 per cent municipal subsidy.

AMO does not in any way necessarily disagree with any of those programs. It simply notes that the burden or some of the burden of those programs is going to fall upon the ratepayer dollars. It is our view that, to a large extent, the burden could more equitably be dealt with under the income tax dollars.

The second aspect of the recommendation under social services is that AMO recommends that the government improve the cost-sharing arrangements for general welfare assistance by expanding the administration component.

It has been our experience over a period of time that certain aspects of the administrative portion of the program have the effect of moving the standard 80-20 share contribution to a level where the municipalities will be bearing in the range of 30 per cent and 50 per cent. For example, the unrealistic expenditure ceilings for the social service administration budgets have a distinct effect upon the municipal involvement. Municipal social service budgets are further aggravated by the increasing costs of the many nonshared administration expenditures, such as telephone and computerization, which are not picked up in the shared ratio.

Those are the comments of AMO with respect to the social services.

With respect to social housing, the position of AMO is that Ontario make a significant budgetary commitment to the production of nonprofit housing during 1987, over and above what we recognize is already a significant commitment on the province's part.

Over the last year, the province has indeed funded 6,700 nonprofit housing units under the federal-provincial nonprofit housing program and further unilaterally funded an additional 3,000 nonprofit housing units targeted to the neediest. We recognize that Renterprise and convert-to-rent programs are also aimed at the supply problem, while the low-rise rehabilitation and the rental housing protection act address the preservation of the existing stock.

We recognize the province's commitment to providing an adequate supply of affordable rental housing. However, notwithstanding the province's efforts,

there remains in Ontario a housing crisis. Despite the province's supply initiatives, the waiting lists for social housing remain unacceptably long. We have provided to you tables 1 and 2, which we believe in some way highlight the problem but in no way indicate the degree of severity of the problem.

Despite the reforms of rent review, the average vacancy rate in Ontario as of January 1987 was 0.6 per cent. The fact of the matter is that the 0.6 per cent is a province-wide average and if it were dealt with only in southern Ontario, that rate would be substantially less. My own municipality, Burlington--although probably through a quirk of timing--on the last determination had a vacancy rate of zero per cent. We are suggesting that these are rates which indicate that the problem is not going to go away in any way and that very large amounts of funding are going to be required.

The Minister of Housing (Mr. Curling) has stated that if we fail to provide shelter--decent and affordable housing--for the people of this province, we will have failed as a government and as legislators. He also says that we have only begun to address the pressing need for housing that exists throughout this province.

AMO would agree with the Minister of Housing and would urge the Treasurer to make significant budgetary commitments for the production of nonprofit housing during 1987.

Alderman Hopcroft: Mr. Chairman, we would be happy to respond to any questions.

Mr. Chairman: Thank you very much. It is a very thorough summary of a lot of the spending needs we have in the province, particularly as they relate to urban municipalities. I do not see any particular suggestion as to where we are going to find that money, but I guess that is our problem.

Mr. Taylor has a question.

Mr. Taylor: I was interested in your message that transfer payments should be increased, as I see it, by roughly double the rate of current inflation. You have attributed a lot of your additional costs to mandated expenditures by this government. Is that not so?

Alderman Hopcroft: In part, yes.

Mr. Taylor: At the same time, you urge further spending on the part of government in other areas. Housing is the greatest example of that. I was wondering whether you have any suggestions in regard to raising further revenues locally, or are you confining your submission basically to the raising of moneys through real property taxes?

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Mr. Hopcroft: Obviously, a lot of the programs we have touched on, in a sense, deal with income redistribution programs. The philosophy of the Association of Municipalities of Ontario is that those types of income redistribution programs are more equitably borne by the income tax base as opposed to the property tax base.

With respect to some of the infrastructure programs, which are quite rightly a municipal responsibility, we feel the mandate of certain programs--particularly the municipal-industrial strategy for abatement

program, which is certainly something that is necessary in the protection of the environment--will carry forward some very significant costs to the municipalities to implement. We are looking at some assistance in those areas. Mr. Rice or Mr. Guiler might wish to elaborate on that.

Mr. Rice: Just to pick up on the point, it is fairly evident that the MISA program will bring with it a considerable capital expenditure, which means that in any kind of shared program we are going to have to raise a considerable portion of those funds. It will depend to some degree on the individual fiscal capacity of each municipality. That will be reflected in user fees, the sewer and water charges that are made in those municipalities, so those revenues will obviously be affected.

To the broader question, the access to additional revenues for a municipality are somewhat limited. As you are well aware, we do not have access to the more progressive taxes such as sales tax and income tax, so when we look, we can look only so far. You cannot charge people to attend a swimming pool or an arena for the purposes of creating funds to assist you in paying your welfare bill.

Mr. Taylor: I appreciate what you are saying, but historically there has been a demand for local self-determination. Of course, local self-government is the foundation of our freedom and our democratic system, etc. Without making a speech on that, the fact remains that, on the one hand, you want local autonomy; on the other hand, you condemn the province for transferring or giving you additional powers and, with the powers, presumably the responsibilities of discharging that jurisdiction. What you are saying is, "We want to become more dependent"--at least, I interpret it this way--"on the province in terms of the funding for those services."

Do you have any breakdown in terms of the large urban municipalities and the smaller municipalities? You have a very stable population in some of the smaller communities. We have a lot of retirees on fixed pensions and the pressure of local taxation is very telling. We have governments at this level and other levels that say: "Keep the older folks in their homes longer. Take the services to them." At the same time, the province has programs to rebate a percentage of real property tax. But you have conflicting pressures and the squeeze is on where municipalities really cannot afford these programs.

We are all in favour of a better environment, more day care, more pay for everybody and all the rest of it, but the chickens are coming home to roost. Do you have some kind of solution in terms of raising money locally that will afford you the opportunity to discharge your mandate and maintain your local autonomy?

Mr. Ramsay: Local income tax.

Mr. Rice: I will attempt to reply. You have pretty well covered the waterfront on that one.

It is quite clear that municipalities have taken the stand that they have to get a share of the progressive taxes. The only way they can get those is through the transfer system, federal to provincial and on down to municipal. Recognizing that, we would prefer to get that money, or as much of it as possible, through unconditional grants and formulas that ensure there is a good flow of funds to look after the programs we were responsible for. Unfortunately, although we have debated this item among ourselves and with you people for at least as long as I can remember, we have not really made significant inroads into deconditionalizing the grant program.

Each of the grant programs in the conditional area, whether it be roads, welfare or what have you, has continued to grow, because the province has had an interest in seeing that certain services were delivered, using the municipalities as the mechanism. While we share your comments about local autonomy, in fact, to a great extent we are a service delivery mechanism for many of the programs that are initiated here.

Mr. Laughren: I congratulate you on your brief--it was an interesting one--and also on your support for the pay equity issue. I am pleased to know that as a body the Association of Municipalities of Ontario supports that principle, because I have had letters from municipalities that indicate they are parting company with their umbrella organization in that regard.

I notice two things in here: one is the question of priorities and the other is whether there has been any attempt to cost the suggestions the organization makes.

Mr. Rice: There has not been an attempt to cost fully the items that have been placed in front of you. They have become an agenda. In terms of priorities, I think we all agree that the environment is a problem. It has developed as a problem and we wish to address that. Housing is very important to our membership as well.

With regard to the infrastructure, we recognize that without federal funds it is going to be very difficult for the province and municipalities on their own to put that infrastructure back in good working condition. What you are going to see instead are allocations of funds that will go to each of those things to the extent that they can be made available by all three levels of government.

Mr. McFadden: Like Mr. Laughren, I want to say I think you provided us with a very thorough brief on what are the concerns of the municipalities. I have had a chance to talk to a lot of my local aldermen and to go over this. A lot of these are familiar themes. With regard to the school trustees, I noticed you included some of the things that are near to their hearts.

Of the two questions I have for you, one is in the area of the total cost of the recommendations you have made to us. I know some of these are difficult to determine, because you talk about ratios and so forth. Have you or your staff been able to quantify the cost or a range of the costs to the province of implementing all or a part of your recommendations? Have you managed to work that through at all in terms of your preparation for this brief?

Alderman Hopcroft: One of the key problems in giving a firm figure is that in many of the programs we were asking for some commitment. We realize it is a big problem and one that cannot be solved overnight, but we are looking for some commitment within the province's fiscal means to help us address those problems which are quite clearly beyond the means of the property tax base to deal with.

Mr. McFadden: What you are saying is that you have had a hard time figuring out what the cost of these various recommendations would be. Some of them are quite specific. I can see that in the waste management area you can quantify the costs to some extent. I know everything goes up more than you expect. In essence, what you are saying is that you have had difficulty quantifying the real costs of the proposals made in the brief.

The second thing--I did not want to ask you directly--was with regard to municipal property taxes. I am very sympathetic to the point that a larger percentage of the kinds of burdens that have been put on property should be carried by a property system that is based on the ability to pay, not only in education but also in the municipal service area. It is my view at least that too much has been tagged on to property. I think that is why we have so much of a problem with assessment today. We are asking property to carry too much of the burden.

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You suggest here that you expect property taxes to go up, I think, by greater than the rate of inflation. You mentioned a 7.3 per cent annual increase in municipal taxes in recent years. I wonder if you could tell me what you expect that rate of increase to be over the next number of years? Are you really suggesting, given things being the way they are, that we can expect municipal property taxes to be double the rate of inflation consistently, or is this a bit of a blip?

Mr. Rice: I will try to answer that. I think what you have seen is an adjustment in the statistics. I believe that is from your own documentation, which the Treasurer's office put out.

Certainly the Ontario economy, in the years in which those figures were produced, was not moving ahead as well as it is today. As a result, our welfare rolls were quite large. We now are faced with, though--and we see a continuation for a number of years--catch-up in the areas of the infrastructure we mentioned earlier, pay equity when that legislation comes in and social welfare reform.

Again, there is no indication to us that there is an end to all that growth. We can administer our municipalities from the existing programs, probably at about the rate of inflation. I think that has been proven in a number of areas where they have not been affected by this. But as long as the economy continues to have the fluctuations in it, and as long as we are behind in many of our programs and attempting to catch up, we are going to have rates of increases in taxes above that of inflation.

Mr. Partington: You indicated that transfer payments were about five per cent last year and that municipal expenditures went up 7.9 per cent. Re the new initiatives--you mentioned the municipal-industrial strategy for abatement and pay equity, and I think you indicated the landfill initiatives--would it be reasonable to expect that the burden on the taxpayer will continue to increase unless there are some tremendous transfer payments made to municipalities?

Mr. Rice: Exactly.

Mr. Partington: Falling back on what Mr. Taylor said, at a time when we want to encourage older people to remain in their homes, when we revere and respect the family unit and would like to encourage home ownership, the current tax system is working against those who own homes; it is based on the value of a house and not on an ability to pay.

There is nothing in this submission--perhaps because it is provincial and not federal--with respect to property tax credits or credits to enable people to deduct property tax from their income. At least that would be one step to alleviate what I see as a current problem. What is not mentioned here

is that the burden is greater than the figures you mentioned, because local taxes are paid with after-tax dollars, yet people get increases in before-tax dollars. Could you comment on any of those positions with respect to that as an avenue to try to get some relief at the local level?

Mr. Rice: A number of years ago, AMO made presentations to the government in support of a tax credit system. We were very supportive of the improvements that came about in the seniors' tax credit. While we have not reviewed that issue in recent years, if it does emerge again as a topic, we will be prepared to take a position on it.

Mr. Ashe: I will try to be brief. Have you put any kind of a number? As you know, the province, because of a good economy and some diddling with the budget figures last year, has about an extra $1 billion in revenue in this current fiscal year. Have you any idea how much of that would have been beneficial to the municipalities in extra grants this year?

Mr. Laughren: Is that parliamentary?

Mr. McFadden: He could have used worse language.

Mr. Laughren: I have never heard worse language than that.

Mr. Haggerty: On the additional road subsidy.

Mr. Ashe: That is what I am asking. I know you got part of it. Have you any idea what part?

Mr. Rice: Trying to come out with a figure off the top of my head would be difficult, but we originally had an indication that grants for our fiscal year 1987 would be in the neighbourhood of four per cent. Eventually, they were announced at the five per cent level. I am speaking of the unconditional grants program. If memory serves me correctly, that is a program of somewhere around $600 million or $700 million. I think the number is probably somewhere around $12 million to $15 million, in that area.

There had been improvements in some other areas. There were increases in the general welfare payments. Therefore, funds flowed through that process. There really has not been any attempt to total that up. I would think, though, that the amount of funding was minor.

Mr. Ashe: Okay. When you talk about the increased expenditures on average at the municipal level, you are talking about annual growth in municipal taxes of 7.3 per cent. I presume there you are talking about your second-tier government, school board and local. I am talking about the top paragraph on page 4.

Mr. Rice: Yes, that is correct.

Mr. Ashe: Okay. Now in the Treasury and Economics one that you referred to on the same page, November 1986, municipal spending is expected to grow by 7.9 per cent. Is that, as referenced by Treasury, including school or just municipal?

Mr. Rise: My understanding is that is just municipal, but it would include other things, such as user charges, sewer and water rates. It is not just taxes.

Mr. Ashe: Last, but not least, do you have any kind of a statistic that indicates how much of your increased spending level relates to the delivery of the welfare system? You use round numbers. I agree with you that is something that goes to a great degree by the economy and that is dictated by provincial legislation, that you pay 20 per cent of it in most cases--not all programs, but in most cases. Do you have any idea what percentage of that total relates to what I would call that uncontrollable cost?

Mr. Rice: Again, I could not give you a direct answer.

Mr. Ashe: I am talking about percentage terms now, not dollars.

Mr. Rice: Some areas of this province are still suffering. I come from the north and we still have quite high levels of welfare dependencies, while southern Ontario has made a significant economic recovery. I would think that would vary from area to area. I think the welfare case load in the province itself at this time is probably down from a year ago, but I really could not give you an answer to that.

Mr. Ashe: Okay. As you know, a number of years ago I sat where you are sitting and I must say I probably would have made the exact same case today, but how do you really justify--and I wrote down word for word your terminology--"that grants should keep pace with municipal expenditures"? That to me says I go to my bank manager and say he should pay every cheque I pay out, regardless of what is behind it. I find it hard to rationalize that one, frankly, knowing that some municipalities are very responsible. In my view, some are very irresponsible in terms of the growth of their overhead costs relative to inflation and relative to their assessment growth.

Mr. Rice: I think you will find that the majority of municipalities fit into that first analogy and are very responsible. I think we have proved over the years that we have had far better control of our expenditures than some of the other levels of government.

Mr. Ashe: That is not too hard.

Mr. Taylor: That is why he is asking for more money from here.

Mr. Rice: That is right.

Mr. Ashe: That is how to get it.

Mr. Rice: I think it is fair to say that we believe that the level of service to the public is a level that we have all come to accept, the public and the politicians, whether they be municipal, regional, provincial or otherwise. To deliver that, there is a share of that cost that is going to have to keep pace. There is a share of that cost that is provided by the province. If its percentage continues to decline as it has, it is only going to end up in tax shifting, and that tax shifting is going to be to that municipal tax base that the other members identified earlier.

Mr. Ashe: Realizing we are out of time, I will pass on. I could go on, but--

Mr. Chairman: I hoped to be to the next witnesses by about 2:50.

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Mr. Haggerty: I was interested in page 12 of your brief today and the concerns that you are talking about, the removal of the federal sales tax

on the infrastructure of municipal services. I suppose that would tie in with the new MISA program the province has out, and there would be some savings there to you. I think the federal Minister of the Environment had confirmed his announcement in January in Windsor a week ago that the federal government is not going to participate in the MISA program. I suppose if you look at it, they are not interested in cleaning up the Great Lakes system.

I was more concerned that you are looking at loans to the provinces from the Canada pension plan. In what area would that benefit you if you were able to tap that source of revenue?

Mr. Rice: In the past, the Canada pension plan has been used as a financing vehicle at lower rates of interest for programs. Some of the CIP program money came from that fund.

Mr. Haggerty: I know the education system received some.

Mr. Rice: Yes, and some of the health initiatives as well. Maybe we are under the false impression that there is still money in the Canada pension plan.

Mr. Haggerty: I imagine there is money there, but you have to tap it.

Mr. Taylor: You never have to pay it back.

Mr. Rice: Yes, but the philosophy was to continue to use those types of financing mechanisms with a lower interest rate as a mechanism for providing funds for the federal involvement. We share your disappointment in Mr. McMillan's statement in Windsor. We think the federal government does have a significant responsibility here. In our meeting with him in Cornwall two weeks ago, Mr. Peterson indicated that he would move the matter to the first ministers' agenda; so hopefully there will be some further discussion.

Mr. Haggerty: What is your average debenture interest rate now costing the municipalities? What are we looking at?

Mr. Rice: Current interest rates are about 11.5 per cent or 12 per cent, depending on what your rating is and whether you can keep your rating up.

Mr. Foulds: I have one quick question about the road grants. You have that table of road expenditure shortfalls. I have not added it up for the detail, but it indicates to me about $112 million for northern municipalities. What kind of things can you not do because you have this shortfall?

Mr. Rice: The biggest problem is in what we refer to as pavement management.

Mr. Foulds: Paving roads.

Mr. Rice: Yes. If you cannot go in there and resurface at the appropriate time, the deterioration from that point on leads you to reconstruction at four and five times the cost.

Mr. Foulds: Right.

Mr. Rice: If you have to cut back, a municipality may require 20 miles of roads paved per year to keep up to that criterion but may have the funds to do only 10 or 12 miles; so it keeps losing each year and eventually that is going to lead to reconstruction.

Mr. Foulds: Do you have any figures from any municipalities--not off the top of your head--where they are actually losing road surface? I know it is happening in my riding in unorganized municipalities. I do not know if there are any in--

Mr. Rice: It is happening in a lot of the major municipalities. It is well documented through TRIP Canada's report, and the Ontario Good Roads Association has quite an amount of detail on that. I could suggest that as a source. We would be happy to have them provide you with that.

Alderman Forbes: Let me just add to that, Mr. Foulds. The municipalities are finding that if you do a priority basis with respect to your streets and you are assessing your streets specifically on a flat priority basis and you intend not to use 100-cent dollars, the bottom line is that no internal street will be ever done. The arterials and collector streets will be done, but the local street in front of the average taxpayer's house will never be done.

Most of your municipalities are now arbitrarily setting aside a certain portion to do the internal streets on a philosophy that the home owner deserves some chance of that tax dollar, as well as the arterial streets. You are finding that in Oakville, which has just recently gone to 100-cent dollars. Hamilton-Wentworth as a region, which picked up a lot of its arterial streets, is going to 100-cent dollars.

Mr. Foulds: Really? For that kind of road construction.

Alderman Forbes: That is right.

Mr. Chairman: Members of the committee, before you disperse, perhaps I can summarize some of your comments. Going back to Mr. Laughren's suggestion, if we had to prioritize, I take it you are saying environment and housing are at the top of list. I am not hearing any screaming about that comment.

Alderman Hopcroft: I would say infrastructure has to be included in there as well. I think that is a very pressing need and one that gets more and more expensive the longer we let it go.

Mr. Chairman: Yes. That is understandable. My own mayor and council are right now sitting in an MTC office demanding capital money for a new bus terminal. I suggest your comments go to most of the major cabinet portfolios, and I am sure they will all be listening.

Alderman Hopcroft: Mr. Chairman, I would like to thank you again, on behalf of AMO, for the opportunity to take part in the prebudget consultation process. We are very much appreciative of the opportunity.

Mr. Chairman: Thank you very much. Members of the committee, one of the comments we did not hear in the last 45 minutes was an endorsement, Mr. Ashe, of your leader's suggestion that any of that $900 million be sent back to the taxpayers.

Alderman Hopcroft: Through municipal governments.

Mr. Chairman: Through municipal governments. All right.

We may hear that from our next witnesses, who are from the Ontario Chamber of Commerce: John Sanderson, the president; Paul Murray, chairman of

the economic policy committee; and Don Eastman, a committee member. We have a brief from the Ontario Chamber of Commerce which has been distributed to committee members during the course of this afternoon's proceedings. Perhaps, Mr. Sanderson you can lead us through that brief and add any comments you wish. Presumably, you will be prepared to entertain questions thereafter.

ONTARIO CHAMBER OF COMMERCE

Mr. Sanderson: Thank you very much for the chance to appear. My name is John Sanderson, and I am president of the Ontario Chamber of Commerce. As you may well know, we represent 150 district or regional chambers of commerce and boards of trade across the province, with some 60,000 members in those communities.

We are here today with our economic policy committee. With the economy of Ontario in a reasonably strong position, in our view, we have taken a somewhat longer view of things today and we have focused on a principal economic concern for the province in the longer term. This concern relates to the $26-billion-odd deficit, particularly in relation to the current surpluses in income and the current opportunities we have to reduce this long-term deficit. It is this matter, particularly, that our committee would like to focus on today.

I would like to introduce our chairman, Paul Murray, who will be the second speaker, and initially, Don Eastman, who is a member of the committee. He will concentrate on the economic outlook portion of our brief and the provincial deficit.

Mr. Eastman: The performance of Ontario's economy since the tip of the recession in late 1982-early 1983 has been comforting, surprising, reassuring, relieving. Choose one or all of the above.

Mr. Ashe: You must be a lawyer.

Mr. Foulds: I am not sure about the imagery, though.

Mr. Eastman: Employment, since the low from January 1983 to January 1987, has increased by more than 600,000. That should not be a source of any complacency, but certainly it is something we should look at and take some degree of pride and pleasure in accomplishing.

At this point, the prospects for Ontario's economy look pretty good. We are four years into a recovery, and there is not much sign of the pressures that normally precede a recession. The one exception I might point to is housing, where we are in the middle of a full-blown demand inflation. The current start rate is not sustainable on a long-term basis.

The ministry's Economic and Fiscal Review of November 1986 looks to real growth in 1987 of 3.7 per cent. I think the decimal point is an affirmation that economists do have a sense of humour. We might quibble with some of the margins around that, but generally we agree with the forecast that is there. Currently, we are not anticipating any major problems either this year or next.

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One element that I think is not described sufficiently in that forecast is the risk that surrounds the forecast. One of the early lessons I learned was, to be a successful forecaster, give a year or give a number but never both at the same time.

Mr. McFadden: That was a two-headed comment.

Mr. Eastman: I have been in the forecasting business for a long time now. I will not claim to have learned humility, but I have learned rather painfully that the future is highly uncertain.

In the past decade we have seen stunning economic volatility, unforeseen events, and generally come to the appreciation that the world is more complex than we previously understood. Currently, there are a number of serious and as yet unresolved strains on the world economic system. We have large debt problems around the world, some serious ones in Latin America; closer to home, there are some in the oil industry. The US faces an immense trade deficit and there is a very severe protectionist mood in Congress; one that, by my reading anyway, does not yet show any signs of going away.

Large volumes of international capital are at overwhelming exchange rates and we can anticipate severe exchange rate volatility for the next number of years.

Closer to home, the automotive industry is in a state of severe flux. We have US tax reform and pending Canadian tax reform and we are not sure just what the ultimate economic impact of either of those will be.

We also have ongoing bilateral trade negotiations and currently I do not know whether that is going to work or not. Certainly, one's forecast changes a great deal depending on which outcome we see.

The purpose of this is not to alarm you unduly but to convey the importance of a budget in Ontario that can withstand an unexpected shock; that will still permit the government, in the face of an unexpected shock, to serve its citizens well.

One element in the economic and fiscal review on which we are in fundamental disagreement is the assumption that deficits automatically stimulate economic activity. They do not. That conclusion appears to be oblivious to the experience worldwide of the past two decades, in which we have seen widespread government deficits in a great many different areas and it is very difficult to find any evidence that has resulted in stimulation.

The question is, why not? A dollar spent by government is no more stimulative than a dollar spent by anybody else. There is no multiplier effect unless that dollar that is spent is then accommodated through the central banking system to show up in a higher money supply and then work through the system.

Mr. Foulds: Sorry, I did not hear that.

Mr. Eastman: When an additional dollar is spent, whether by government or on the personal level, that only has a multiplier effect if the central bank permits it by allowing an adjustment in the money supply to take place. As long as the central bank is leaning against the money supply, with high interest rates or even any form of restrictive interest rates, that dollar spending simply comes at the expense of a dollar someplace else. There will be times when it can be stimulative, but we have not seen that for the past decade.

That does not mean that there are not good reasons for government spending and that it is not valid, but in terms of looking for a multiplier

effect, you are not going to find it unless the central bank participates in the process, and we have not seen that.

Mr. Haggerty: That would also apply to the banking institutions in Canada, besides government, would it not?

Mr. Eastman: Yes, that is right.

Turning to the deficit, frankly, as a chamber we have not done a very good job of communicating our concerns about the deficit. To put that in some terms that you may not have seen before, Ontario's present ability to deliver services is seriously impaired by the $3.6 billion it is currently paying on $26.5 billion in past deficits. Ontario's tax burden is already high. It does not cover current spending levels.

The price of that is that, for instance, in 1982 the government's ability to respond to a recession-driven, rapid escalation in social needs was severely constrained because we entered that period with a deficit that was already seriously out of control.

At present, the Treasurer could totally eliminate cash requirements in the province and still have an excess of more than $2 billion to reduce taxes or increase services, or both.

Mr. Ashe: Did I hear you say "to reduces taxes"?

Mr. Eastman: Yes. The provincial sales tax could be reduced to five per cent and still permit additional spending, if not for the legacy of past provincial deficits. The result is that taxes accomplish far less than they ought to because so much goes to cover interest payments. For a number of years now, Ontario's deficit performance could be characterized by rearranging the saying to "short-term gain for long-term pain."

In perspective, relative to the federal government and to other provincial governments, Ontario's performance looks good. Cash requirements have been reduced. They are now at their lowest level since the recession that began in the middle of 1981. However, in our opinion, that deficit performance has not kept pace with the province's economic performance. Ontario has been missing a rare opportunity to get its fiscal house in order, relatively painlessly, and position itself to provide improved long-term service to its citizens. At this point, we should be chewing down the provincial debt, not adding to it.

Mr. Murray: Mr. Chairman, my job is to talk about spending restraint, something different.

Mr. Taylor: They are slow learners.

Mr. Murray: I will join that club. At the chamber, we have been rather disappointed, putting it rather honestly. Things have been great in Ontario; we have had $900 million more than we anticipated come in in relation to the budget. Unfortunately, we have spent $724 million--these are the third-quarter update figures. We spent more than we anticipated.

Mr. Ashe: It will be a lot bigger before the end of the fiscal year.

Mr. Murray: In the words of the Treasurer, we may apply a $195-million difference against the deficit.

Without going into it in any detail, all we can say is that we are rather disappointed in that. We feel there is a bit of a breakdown in the budget process in that, all of a sudden, departments across the board exceed and go beyond their budgeted figures. A lot of this stuff is very worthwhile. We agree with that. Unfortunately, it does go against the process.

Taking a little longer look on this in the area of restraint, going over this Economic and Fiscal Review which came out in November, there are a couple of charts that I found very interesting, as someone who is not too involved in government things. The charts are called "Distribution of Ontario's Expenditures." In 1976-77, we spent 59 per cent of our expenditures on social expenditures; social expenditures being health, education and social services. In 1986-87, 10 years later, that figure had gone up by two per cent; we are now spending 61 per cent. There are only five areas on these charts which I found easy to understand. Normally, I look at these things and there is a huge, big, long line and it is tough to understand.

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Another category is resources and economic development. In 1976-77, that was 22 per cent of the total amount we spent; currently, it is at 17 per cent. General government expense has gone from eight per cent in 1976-77 to seven per cent, so we have reduced it. It is one in our favour. The expenditures on justice are the same, which is not unreasonable. Unfortunately, expenditure on public debt has gone from seven per cent to 11 per cent. What it is really telling us is that an increasing amount of what we spend is going on social areas. It has gone up two per cent in a 10-year period.

Our public debt has gone up by four per cent of our expenditure in that period. Justice has not done anything, so it has not helped and it has not hindered. General government expenditure, if you really want to look at it, has been good; it has gone down from eight to seven. Unfortunately, the other thing that has gone down is the amount spent on resources and economic development. The question you have to ask is, "What does that involve?" It involves a number of things that are kind of important. Our expenditures on these social programs and the debt interest are taking a greater and greater share of the overall expenditures.

Obviously, looking at it, as long as we continue to operate with deficits, our interest rate percentage is highly unlikely to go down. There are a number of new social programs that are not even included now to some extent or to a great extent. We have costs in pay equity, indexed pensions, increases in health costs and resolution of this public-separate school problem. You read a lot of things in the paper about the quality of our universities, so we have more money in education. A strange little thing that crops up in the paper is that, as a province, we do not know what is going to be the effect of acquired immune deficiency syndrome, as silly as it sounds, when you start counting it out and what it could mean to this province and the health care of this province down the road.

Further, all of us get older and we all require more and more from the health care system and that is a factor. These things are trying to tell us that our social expenditures as a percentage of our income are unlikely to go down. As these things increase as a per cent of what we spend, I do not see that our expenditure on justice is going to change. There is not a great deal to make it change. It is not a big item anyway. General government expenses are down to seven per cent of what we spend, so no matter what you do it is not going to have a major effect.

You are left with only one area that is going to be the area that is going to have to give up more of its share of the expenditure, and that is the area of resources and economic development. Then you come along and say, "What are these things?" Much to my surprise, these things are maintenance and construction of the transportation system, forest management programs, industrial and agricultural assistance, environmental protection and skills training.

The point we are trying to make is that what we see ahead are cutbacks on expenditures that were designed to make the province strong. Forest management, skills training and environmental protection are supposed to be making us strong. We are cutting back on them but we are increasing what we are spending on the whole social area and debt interest. You wind up looking at 1976-77 to 1986-87 and you start wondering where it is going to be in 1996-97. Is it going to be a continuation of this trend or is it going to change?

Coming back to what I was supposed to start talking about, spending restraint, somehow or other we feel that is possibly the only area that can change this thing. It is a concern and a line of things we have been bothered with. It is an area we want to bring to your attention.

Mr. Chairman: You have fostered some interesting questions. I think perhaps we can move on to those questions and see what is going on in the minds of the committee members.

Mr. McFadden: You have certainly given us a lot of food for thought here today, including some of the points made about the interrelationship between the money supply and stimulation of the economy.

Mr. Taylor: Spend ourselves into prosperity.

Mr. McFadden: That is right. I wonder if I could deal with two areas. One is the area of spending priorities. As a committee, we have been receiving submissions from a large number of groups in the education area, to some extent the health area, and roads. The municipalities were here just before you were speaking. In one morning, I think, three delegations appeared from the education area. When we quantified what their total would be if we acted on every recommendation they came to us with, it would come to only $1.7 billion. That was in half a day and that did not include the roads and all the other things or the Association of Municipalities of Ontario submissions.

Mr. Chairman: I think AMO beat that in its last submission.

Mr. McFadden: Yes. I was not quite sure; they would not quantify it, so I did not get into it. It was hard to get earmarked. One delegation that appeared one morning did quantify all its needs and what it thought we should be spending the money on.

Could you give us some indication as to specifically where you would put your spending priorities? You mentioned you felt the resource areas should not go down in priority, as I understand what you were suggesting. If we as a committee are dealing with essentially limited dollars that are not expanding all that much, could you tell us where you think we should be putting our resources? I explained how much: not enough to meet all the demands. Where would you tend to put your priorities? You have heard about infrastructure, the environment and so on. I am just curious to know where you would put your spending priorities, given the fact we cannot meet everybody's wish list.

Mr. Murray: To start off to answer that, if you look at a certain group of things as being the sort of engines of prosperity or the things that are going to pull the truck, I am not totally convinced those are the things we should be cutting back. In other words, we are turning around and saying that as a government you have to encourage, try to develop our industry, do things about our skills and help our agriculture, forest mangement and industry. These are the things that are going to create the jobs and the tax moneys that are going to allow us to go out and spend.

Our point is that if you cut back on those things, are you not ultimately shooting yourself in the foot? This is what kind of bothered me and bothered us as a group in going over this, that we are not feeding the golden goose, the goose that is going to give us the gold down the road. All these other things are wonderful, but they have to be done in relationship to this side.

Probably our point would be, concentrate on these things, key things that are there. Roads are good, as long as they are not useless roads but important roads. That part would be good. The other part of it, going into the social side, is something else again. I could speak quickly here. Yes, the priorities should be on these things that will further develop the wealth and strength of the province.

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Mr. Sanderson: Do you want us each to add to that? My point is, all these demands sort of strengthen our argument that there are a great deal of demands out there for very vital expenditures and some very key issues necessary for the long-term growth.

That is why we get concerned at increasing percentages of the budget being spent on debt and social programs in a part of North America that is probably in better shape with social systems and programs than any other area of North America. The concentration should be on roads, resources, skills training, education and those things which will equip the people of our province to deal better with the vast changes that are coming our way, either with or without free trade.

As a province and as a country, we are going to have to be much more competitive in the next 10 years than we have been in the last 10 years. There is going to be much greater competition and much greater demand on our people, especially our young people. They should be assisted in getting educated and better prepared.

The roads and the resources are the areas where we believe the concentration should be, not necessarily through greatly expanded spending but through continuation of those programs which are considered necessary. Social programs are good, and we like to see advances in social programs as well, but they should be watched very carefully, so they do not take over and begin to have the tail wagging the dog, especially since, in view of the competition of free trade, deregulation and whatever happens, there will be a much more competitive environment in the years ahead.

Don, do you have any thoughts about where we should be spending?

Mr. Eastman: I think there are two dimensions to it. One is to set out priorities of what you want to spend the money on. The other is the time dimension, which is when you want to spend it. Again, my concern is that in

the government's current fiscal position, each dollar spent today is more than a dollar that cannot be spent tomorrow.

Mr. McFadden: I have one further question on deficit. You made a point with regard to the existence of the deficit today. I take it that what your brief would be suggesting is that, given our increase in revenue and general prosperity, we should have balanced the budget by now. I take it that is the thrust of what you are suggesting.

Interjection: Yes.

Mr. McFadden: I do not know whether you have looked into this. The worry I have is that if we are running, say, a $1-billion deficit today, when the next recession hits--this goes back to your question about 1996--what will be the deficit in the next recession? What per cent of the provincial budget will be in debt service by 1996? I take it that is your concern; it is certainly mine.

It is a conundrum, because right now we can be happy in the sense that we have the economic growth to cover over a lot of this. I share your concern that we could be building a very serious situation into the future, and we are not remedying it today, when we could be.

Mr. Sanderson: We have a very favourable fuel cost situation at present; we have a very favourable interest rate situation. We do not know what the federal government tax restructuring is going to do to provincial needs, and we do not know what spending requirements will be in the future to assist people affected by free trade or deregulation of industries. There may well be some unforeseen costs in those areas to maintain and assist people through those periods.

It is our feeling that Ontario has probably never had such a good opportunity or been in such a good position to take some of the money that may be somewhat surplus now. Rather than spending it on additional programs just for the sake of it, it should begin to put a little money in the sock, so to speak, and pay down the deficit to some degree, reduce the longer-term interest payments and put us in a better position to meet some probable and fairly sizeable changes in the way we do business in the province in the next five years or so.

Mr. Laughren: I have a couple of fairly simple questions. One is, does the chamber support assistance to the private sector by government?

Mr. Sanderson: That is a rather mixed situation. Each year at our convention we have a resolution presented to the effect that no member of the chamber will ever ask for further assistance from government. There is a tremendous debate; it usually gets so violent it does not come to a vote.

Mr. Ashe: It sounds like a New Democratic Party convention.

Mr. Taylor: If they are handing it all out, why not take it?

Mr. Sanderson: Certainly, I think there is an underlying feeling among most chambers and corporate members that such expenditures should be and possibly could be avoided in the longer term.

Mr. Laughren: I imagine the answer you would give would get somewhat blurred when you talk about environmental controls and that kind of thing. Beyond that, I am just a country boy from northern Ontario.

Mr. Haggerty: He grows potatoes.

Mr. Laughren: In the north, as I am sure you know, the economy is not growing the way it is in southern Ontario; two Ontarios are developing out there. I am wondering whether the chamber feels the economy should be allowed to shake down--if I could borrow some words--to a leaner, meaner economy with less employment and a different kind of economy, or whether you think government intervention is required to turn the economy of northern Ontario around and whether you support that.

Mr. Sanderson: That is a rather difficult question. We all have different views on that.

Mr. Laughren: There are no simple questions, I am sorry.

Mr. Sanderson: We have recently formed a resources development committee within the chamber. Its membership is strongly oriented to further development of northern Ontario. I would say that if there is any area where provincial and perhaps federal money is needed to continue to keep pace with things and to recognize that there may not have been quite as much strength in that area, we would generally lean towards evening out the effects of the economy so that all parts of the province are participating in whatever is happening, whether it is good or bad. Some of the other members may have some comments.

Mr. Laughren: Maybe I can make it easier by being specific. For example, I wonder whether the chamber would support the government if the government said: "In view of the fact that we are the number three mineral producer in the world and the number one importer of mining machinery, which seems to us to be a bit insane, and since the private sector has allowed a vacuum to develop there, we are going to create a crown corporation to build mining machinery." Would the chamber support that in order to even out the development of the economy of northern Ontario? We are not talking in abstract terms; we are making it easier for you.

Mr. Sanderson: We have not considered that.

Mr. Laughren: As a principle?

Mr. Sanderson: As a principle we probably would not support additional crown corporations to get into manufacturing.

Mr. Laughren: Can we then count on the private sector doing it?

Mr. Murray: Well--

Mr. Laughren: You cannot have it both ways in this world. Either the government should be encouraged to even out the economy of northern Ontario, which you think should be done, you think it should be evened out, or we have to rely on the private sector to do it. I do not know which it is you are after. I do not know which it is you want. I am confused.

Mr. Murray: It is not completely black and white--

Mr. Laughren: I am looking for answers. I am seeking answers from you gentlemen--

Mr. Chairman: You made your point, Mr. Laughren. I do not think you can ask the chamber to make an undertaking on the part of the private sector.

Mr. Laughren: No, I am not asking it to do that. I am asking what is the position of the chamber.

Mr. Sanderson: I think our position would be that if there was some economic advantage to re-creating that structure of manufacturing of mining equipment in Canada, that is something we would be glad to examine through our northern chambers and through the chamber and to do some research into the question. It may well be that would be a valid place and that it would have some long-term economic benefit and possible profitability, as many crown corporations have but as most private companies have if they are in existence for any period of time. If it were a valid adventure, the chamber might be willing to get behind it, support it, talk to people and get the thing moving. We would be most pleased to see that happen.

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Mr. Laughren: It seems to me we have the same goal, more even economic development in Ontario, and we are grasping for solutions or ways to reach that goal.

Mr. Sanderson: I think you are right.

Mr. Chairman: Mr. Foulds.

Mr. Laughren: Do not be so jumpy, Mr. Chairman.

Mr. Chairman: No, no.

Mr. Foulds: Would it be fair to say that basically the chamber's attitude is to have a kind of pay-as-you-go or as close as possible to a pay-as-you-go philosophy with regard to the provincial budget?

Mr. Sanderson: At the present time I would say that is reasonable.

Mr. Eastman: Let me disagree with John on this. I think the chamber's position on the budget deficit is that it is an uncertain world, that we go through economic cycles, but that in the proper exercise of its responsibility to the people of this province the government needs to be in a position where it can meet the social needs in a time such as the 1982 recession where you had events that dramatically dry up revenue at the same time as they drive up the social needs of the province.

Mr. Foulds: They increase the social needs.

Mr. Eastman: Yes, that is right. They increase the social needs at the same time as they dry up revenue. It would have been irresponsible for the province not to have run a deficit during that period. The province was not able to be as responsive as it should have been to the needs of development in that period because it had too high a deficit going into that period. It was not able to serve the needs of the people properly.

Currently, we have a dramatic accumulation of deficits over past years. We have what are, frankly, pretty good economic circumstances. We could be paying that down and putting ourselves in a better position before the next shock, whatever that might be.

Mr. Foulds: It seems there are two present shocks in the Ontario situation. One is the case of a single mother with two children who gets the

marginal sum of $8,500 a year to live on, all expenses, top budget. It might stimulate the retail sector if that person had $1,000 or $2,000 more to spend, because she does not have any disposable income. That would be a useful expenditure of funds. Obviously, from your presentation you do not think so, because the situation now is so good that we should be paying back our deficit rather than trying to expand some needed social funds, social programs.

Mr. Eastman: I think those decisions need to be assessed on their own merits. If it is appropriate to increase the funds that the woman with two children receives, then they should be increased.

Mr. Foulds: That is universal across the province.

Mr. Eastman: But there should be a commitment by this province to pay for that, not to pay for it with even higher taxes in the future. I have reservations about whether that increase in spending should take place without the commitment proceeding at the same time.

Mr. Foulds: A couple of years ago I did a calculation that if we actually collected all the deferred taxes from the corporate sector, we would be able to reduce the deficit by 50 per cent. Is that something the chamber would look at positively?

Mr. Eastman: The chamber does look forward--I am not sure "forward" is the right word--apprehensively to the set of taxation changes that will be coming down federally. Deferred taxes is a complex issue.

Mr. Foulds: I understand it is a complex issue. You could not do it all at once, but in terms of adopting a policy of reducing the deficit and actually getting a handle on that, even if we collected 20 per cent of the unpaid or deferred taxes annually until we caught up, we could do a pretty fine job of helping to reduce the deficit.

Mr. Sanderson: I think the only position we have taken on tax deferrals is our recent support of the continuation of the mining flow-through shares in northern Ontario. Beyond that, we have not taken a very strong position on either increasing or decreasing tax avoidance schemes.

Mr. Foulds: I have only one other question because I am sure others want to ask questions. I want to follow up on something my colleague asked.

I have a problem: In northern Ontario, particularly in my part of the province, private capital, through Great Lakes Forest Products, has decided to close down a waferboard plant that a provincial commissioner found (a) had a market and (b) could be viable provided there were certain improvements in the plant and so on. Nevertheless, after 10 months of negotiations, the company made the decision to close that plant. Kimberly-Clark, in order to survive--its term is "survival plan"--has laid off about 800 men in pulp and paper operations and a sawmill just last week in Longlac because it has other capital requirements and operational costs.

It appears to me that the private sector, for whatever reasons, does not seem to be able to keep the engine of the economy moving in what is a renewable resource in an area where there are markets. In those circumstances, would you have any difficulty with crown ownership, co-operative ownership or a consortium between co-operative, private and government ownership?

Mr. Sanderson: In principle, we are not very enthusiastic about crown ownership. We made some submissions a few weeks ago to the parliamentary

committee on plant closures. We thought more attention should be paid by firms, and there should be more opportunity for firms to give more advance notice to government of major changes, especially in resource-oriented communities, so that the province and the companies could work out a better plan than some of the ones you have talked about. In other words, there may be alternatives.

The more advance notice that is given and the more significant such changes are in terms of the effect on workers, the more opportunities there are for people at the Ministry of Industry, Trade and Technology to examine the thing and work out other solutions. Some of these could be partial assistance. There could be many solutions. It is hard to say without examining the details of any situation. We would certainly be open to looking at special plans for special circumstances.

Mr. Foulds: Obviously, a number of these things have to be looked at on a case-by-case basis. I certainly do not want to keep an uneconomic industry or plant going. If there is no market and it cannot make at least some kind of profit, it does not seem to me to make a lot of sense in terms of--

Mr. Sanderson: Exactly. It is much better to spend the money on industries, wherever located but particularly located in northern Ontario, that might have a much better chance of being viable in world or North American markets, such as mining machinery.

Mr. Foulds: This gets me to my other point. I do not know whether the chamber has given this much thought through its various corporate members, but surely it would make some sense for and would benefit the corporations themselves, the individual companies themselves, if there were more long-range co-operative planning with both the work force and the government, so that if three years down the road you see this plant is going to have to close because the market is drying up or plastics have taken over from some wood product, or whatever, together you can plan an ultimate industry or a possible ultimate industry. You have enough time to look at the alternatives for an individual community or for a different community.

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Mr. Sanderson: I think what you are saying makes a lot of sense. In our submission to the plant closure group, we did suggest that a special branch of Industry, Trade and Technology be set up here in Ontario to deal with questions such as those, a group within the business part of government to work with industry on such long-term programs, especially in the light of the changes that free trade or the lack of free trade may bring.

Mr. Chairman: I have a brief question. Mr. Ashe, did you have a question?

Mr. Ashe: I also have a very brief question which only indirectly relates to the issue. Can you tell me, in 60 seconds or less, the difference between a chamber of commerce and a board of trade and why the two terminologies are used? Why not some consistency?

Mr. Sanderson: It is at the option of the chamber of commerce or board of trade what it calls itself. It is exactly the same organization.

Mr. Ashe: That was my understanding. I could never figure out why the two names were used. It is confusing in that context.

Mr. Sanderson: Which one would you prefer us to use?

Mr. Ashe: I do not care at all. You are called the Ontario Chamber of Commerce, not the Ontario board of trade, so obviously you have made a distinction in your view of it.

Mr. Sanderson: I think the majority would be chambers of commerce.

Mr. Chairman: Mr. Ashe, we are also going to hear from the Metro Toronto board of trade. Perhaps at that time we can discern whether there is any difference in approach.

Mr. Taylor: Very briefly, while you are thinking, Mr. Chairman--

Mr. Chairman: Yes, very briefly; the chair has a question too.

Mr. Taylor: Let us look at this thing realistically.

Mr. Chairman: We cannot be brief if we do that.

Mr. Taylor: As you know, there are all kinds of pressures put on government. There seems to be a view that you spend yourself into prosperity. You have heard the heart-throbs of some members, and I am not unsympathetic with those in need, but the appetite for good things to be done is insatiable and our deficit is increasing instead of decreasing. Every province in the country is running in a deficit position, but it really says the federal government is broke, and I probably agree that it is.

Assuming continued spending as we are doing now, and increasing debt, assuming that Ontario and Canada are very dependent on trade in Canada--probably a third of our gross national product is either trade-driven or trade-derived, as I understand it--and whether we have free trade or not, as you have mentioned, we have to be competitive; let us assume we continue as we are going. Can you indicate what the scenario will be ultimately if we do not change our direction?

Mr. Murray: How do you describe doomsday? Ultimately, we are going to go broke.

Mr. Taylor: Tell me about it, because nobody seems to believe it. Is there something that will happen? Is there some series of events? Does something catastrophic have to happen before government catches on that it cannot spend indefinitely?

Mr. Laughren: Brian will lead us out of the wilderness.

Mr. Chairman: I think that begs a lengthy answer. I do not know whether it can be answered--

Mr. Taylor: You are intimidated by a response.

Mr. Chairman: No, but I think we are getting into a very basic philosophical discussion.

Mr. Taylor: It is not philosophical; it is very real.

Mr. Ashe: It is more than real.

Mr. Chairman: We have had a brief that has basically told us we should be cutting the deficit to zero.

Mr. Taylor: I appreciate that, but what happens if we do not, and we are not? Are we afraid to hear what might happen?

Mr. Chairman: No. Go ahead.

Mr. Murray: I am sure, Mr. Taylor, your imagination is just as good in this area as ours.

Mr. Laughren: It is a lot better.

Mr. Foulds: It has been for the last 12 years.

Mr. Ashe: I understand that Jim Taylor has been invited to be the guest speaker at the next NDP convention.

Mr. Laughren: That is right.

Mr. Chairman: I have, I suppose, a variation on Mr. Taylor's question. There has been an opinion proffered that it is permissible, shall we say, to deficit capital expenditures, as long as you keep your current expenditures up to date. I note your brief suggests we have not even done that, but as long as current spending levels are not deficit financed, and if you are building a highway or a hospital that is going to be used by future generations, it is not wrong, either economically or morally, to have those future generations paying for it. Do you have any comment on that?

Mr. Murray: It is possibly an idea that has merit, but it is kind of like switching the rules midway in the game. In other words, if that is to be the approach, then it tends to change a lot of other things, long-lasting other things. It is not the type of thing that one can switch back and forth on, depending on which way the wind blows. I know a number of people have considered whether government should function in basically the same manner as private business and capitalize the capital items, but there are other constraints that come along with it which may not be quite that pleasant. I do not disagree that a thing of that nature might have some long-term benefits as long as it was treated in a long-term way and done with thorough examination.

Mr. Chairman: I suppose those other restraints or concerns would involve the per cent of your revenue that is going to pay interest on the deficit.

Mr. Murray: And how, in effect, a corporation capitalizes things but then has depreciation. Are you going to use the same depreciation method or do you ignore the depreciation? You cannot have it both ways is what I am inclined to suggest.

Mr. Sanderson: I think Mr. Taylor was talking about the difference between good management and bad management. Where you have good management, you go on to survive and build up funds for future crises, which always come at some time or another. If you have bad management, if you do not as a group run this province properly, in a businesslike way, with an eye to a balanced budget, paying for things as you go and not throwing a lot of money to future generations that may not be able to afford the money you are throwing to them, whether they like what they are getting for it or not, the province, like any company with bad management, will just go broke. It is as simple as that.

Mr. Chairman: Thank you very much for your presentation this afternoon. I think you can see the problem this committee is facing. You perhaps heard some of the presentation of the Association of Municipalities of Ontario, with its great plans for spending money. There were other briefs we had of that nature as well. We certainly appreciate your bringing home to us the issue of the deficit and the need to keep it under control.

DICKIE DEE ICE CREAM (CANADA) LTD.

Mr. Chairman: Members of the committee, the next presentation we have has to do with a specific problem. I suppose it is an example of some briefs we have had of that nature, but this one in particular deals with the regulations that seem to exempt selling prepared food under $2 from the retail sales tax. If it is not prepared, it still attracts a tax under the Retail Sales Tax Act.

There are ice cream distributors represented today by Dickie Dee Ice Cream and perhaps some other companies, or is it just Dickie Dee? I am sure there are other companies that would concur in the presentation of Patrick Carter, who comes from the good city of Kitchener. Mr. Carter, would you like to take a seat up here? Members of the committee have your brief in front of them, which is basically to the effect that the previous budget exempted prepared foods up to $2 and therefore ice cream cones and things of that nature which are prepared. The ice cream vendors, particularly bicycles that go around our city selling unprepared or--

Mr. Carter: It is prepared.

Mr. Chairman: --prepared, I guess the word is, or preprepared foods, is what I am getting at.

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Mr. Carter: Prepackaged.

Mr. Chairman: Prepackaged foods; those foods are still inviting a tax. Mr. Carter has pointed out that it can be extremely damaging to that sort of a business, and there are a fair number of youngsters who are employed in the course of the summer on days like the days we are experiencing right now. Would you like to expand on that?

Mr. Carter: Yes. I like my job; I got involved with the ice cream business 11 years ago. I started my business with 10 bicycles and over the years I have built it up to, at one point, 23.

One of the first things I learned about the business is that it is a very fragile business, as you know. You just mentioned the weather. The one thing it does do is that it works. That all seemed to stop in 1983 when the provincial government put a tax on our business. It was like somebody pulled the plug and it has slowly gone down the drain, and there is nothing I can do to stop it. To give an example, last year my business paid almost $10,000 in provincial sales tax.

I am here today to tell you that when you take that much money out of a small business like mine, you take the life right out of it. I would also like to know why anybody in this committee room can come down to Kitchener, rent a building right next door to mine and start up a new business, and seeing that he is starting a new business, he could ask for and probably receive some sort

of government grant, subsidy or interest-free loan. Then he could turn around and tell the government that he is creating a job for a student and the government is right there to give him $1.25 per hour for that student. He could then turn around and tell that subsidized student to scoop tax-free ice cream. As I said, I have been in the business 11 years. I have never asked for or received one penny from the provincial government for creating jobs or putting students to work. This year I expect to have 55 to 60 students working during the summer at any given time. By the way, I did start selling yesterday.

Another thing I would like to ask the government of Ontario is why it allows American-owned companies to sell tax-free ice cream at Baskin-Robbins and Dairy Queen, when the business I am involved with is totally Canadian-owned and Canadian-operated and I am being taxed to the point of bankruptcy. Not only did I have to pay almost $10,0000 last year in provincial sales tax, but I also had to accept the reality that my business has dropped 30 per cent because of it.

Every day I pick up the newspaper and read that Ontario seems to have a lot going for it; it has the best economy in the country and supposedly is one of the have provinces. Why is it the only province in Canada to charge a provincial sales tax on the ice cream bicycle business? That I do not understand. There are a lot of distributors here in the room who represent areas from across Ontario and they would agree with what I have said. Believe me, they could probably add a lot more on how the sales tax has affected their business. Speaking for myself, students have already lost their jobs and now my job is in very serious jeopardy. You can only beat a dead horse for so long before you have to get up and walk away. That is the position I am in right now.

Mr. Taylor: Is there a rationale for the tax?

Mr. Chairman: I think the history of it--

Mr. Taylor: Mr. Ashe might have something to say.

Mr. Chairman: Mr. Ashe has a question and he is first on the list. Just as a supplement to what you are saying, though, you indicate in your brief a comparison between Kitchener-Waterloo and Halifax, which is a similar-sized area in which sales have not decreased in the period since 1983.

Mr. Carter: Exactly.

Mr. Ashe: First of all, I agree with your brief; okay? Let me start off by putting that right on the record. Having said that, maybe I can answer the rationale behind it and you can correct me if the interpretation is wrong.

The sales tax, even before and in effect now, is on what is considered prepackaged, snack-type goods, again rightly or wrongly. That is to say, pop, chips, ice cream bars and chocolate bars are all considered a prepackaged snack good and still maintain tax. It is not that they are sold only from a bicycle. The same thing applies to them sold in a store. The differential is the difference between scooping out ice cream and taking an ice cream bar. Again, that is something only the Treasurer can rationalize--and previous Trasurers, by the way; I am not saying that in any other sense than that.

The distinction is not just on the bicycles; it is the prepackaged snack goods type of principle behind the tax.

Mr. Carter: May I point out one thing? If you go into a variety store to buy an ice cream and you say, "That is very expensive," you could turn around and have a choice of 1,900 other products to buy.

Mr. Ashe: I am not arguing against you at all. You have made that point in your brief quite rightly.

Mr. Carter: Okay.

Mr. Ashe: I do not know whether what I have said clarifies it. Again, rightly or wrongly, that is the principle behind why the tax is there.

Mr. Taylor: These are all prepackaged; you do not scoop them.

Mr. Carter: I cannot do that because of the health regulations.

Mr. Chairman: Mr. Ashe, may I ask you a question? We have evidence here that Nova Scotia, for instance, does not have this tax on ice cream bars. Does it have tax on other packaged confections?

Mr. Ashe: I frankly do not know what the current limits are in the various other jurisdictions vis-à-vis your $1, $2, $3 kinds of things and what is included. I honestly do not know. Presumably they do not have a tax, obviously, because the gentleman indicates they do not. They may have a whole different principle as to their sales tax. I am sure the Treasury and/or the Ministry of Revenue, which administers the tax policy as set by the Treasurer, can provide us with the answer to that very quickly.

There are two points I wanted to make, and I realize there are quite a few others. I agree with what you said, and that is number one; I said that before. Look at Halifax, though. What happened there in 1985? It had a recovery in 1986, but in fact, it did go down. It did not go up substantially in 1984 after the 1983 downturn. They went down substantially, as a matter of fact, about a quarter decline from 1984 to 1985, and then they recovered last year. Are you aware of any reason?

The other thing that comes to mind is--I have to be honest, I think this is like everything else; there are cyclical reasons why some businesses go up and down. I do not even know what your products are now. I have had them in the past, to be very honest, because a number of years ago one of my sons did a bicycle for a while out my way--not for Dickie Dee--so I have sampled the products over the years.

There is nothing wrong with it in that regard, but I honestly think a lot of these things are cyclical and the nickel difference, which is probably about the average on your product between having sales tax and no sales tax, would not account for your problem to the degree you think it does.

The store that sells tennis racquets has a cyclical problem right now. The tennis business is on the decline and has been for the last two years. I am sure from our own experience we could go through all kinds of cyclical-related problems. They do not have anything to do with sales tax, although that is a good place to blame it, I suppose.

Are you aware of the downturn before it went back up in Halifax, and do you honestly think, and I mean that in all sincerity, that the nickel difference changed that kind of marketplace?

Mr. Carter: As far as the downward trend in Halifax goes, as I said at the first, it is a fragile business, meaning that we depend on the weather. That year in Halifax, for all I know, it could have rained for the month of May.

I am sorry, what was your other question? The nickel difference; would that affect our sales?

Mr. Ashe: Yes, do you honestly think that changed the business to that degree? I am not saying it is not responsible for some decline, by any stretch of the imagination.

Mr. Carter: My business is basically 80 to 85 per cent children and that nickel or a dime does mean a lot to a 10-year-old. Many days, it means a difference of whether he buys an ice cream or whether he does not, and then I feel we are pricing ourselves out of the market.

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Mr. Ashe: What is the average tax?

Mr. Carter: All my products this year are still under $1, so it is a nickel.

Mr. Ashe: Up to about 80 cents, you are talking a nickel. You have some below that and I presume some slightly above. It is a nickel and not a dime.

Mr. Carter: Yes.

Mr. Ashe: I sympathize with what you are saying and I hope that is something we end up suggesting Treasury look at. If you did not have tax on it this year, I honestly do not think you would see the recovery that you see because of that. Hopefully, the cycle is going going to go the other way for your benefit, needless to say. Anyway, I will pass on, Mr. Chairman.

Mr. McFadden: If I were to go into, say, one of the ice cream parlours, as it is termed here--it is rather an old expression, but I guess it is still valid--and were to purchase an ice cream bar of the type that I can purchase from you or one of the people on one of your vehicles, would I pay a tax on that article in the ice cream parlour or would I pay it only because it comes from your vehicle?

Mr. Carter: First, I would like to point out that the ice cream parlours probably sell 95 per cent of their business by scooping. If they do have prepackaged products there, it represents a very small percentage of their total sales. Yes, it would be taxable if it is prepackaged.

Mr. McFadden: That is what I was trying to get at, if there is direct discrimination.

Mr. Carter: As far as I understand, it would be taxed.

Mr. McFadden: Just to follow up with what Mr. Ashe raised, one of the things I have noticed in Ontario, in recent years at least, has been the advent of all these specialty places, like Baskin-Robbins, which seem to be opening up every second block. Dairy Queen does not seem to appear too much but Baskin-Robbins seems to be the one, I guess, that is mostly getting around. I note you also mentioned the ice cream trucks.

What I am trying to figure out here is if a part of your problem is the proliferation of stores that are selling ice cream and the kids find it so easy go in there with their big selection rather than buying it off the street. How much of it do you think is just the number of stores that have opened up? When I was a kid, you had to go a long way to find a place to get ice cream. Baskin-Robbins did not exist then. You would look to the corner variety stores. In fact, bicycles did not exist in Thunder Bay when I grew up.

Mr. Haggerty: They are there now.

Mr. Foulds: You never went to Sammy Arthur's grocery store?

Mr. McFadden: Oh, yes. I forget the name of the one up on Regent Street I used to go to. I was trying to remember.

Mr. Foulds: Oh, yes. Regents.

Mr. McFadden: Yes. I think that is probably it. I am just curious. Do you think a part of the problem you have got is just the proliferation of outlets? I am trying to figure out the structure of the business.

Mr. Carter: Not really, no. It would not affect us that much. The fact is that you take a special event, say, like I did the Highland Games last year--

Mr. McFadden: Which one?

Mr. Carter: Both of them, in fact, Cambridge and Fergus. If I went there and the person who is selling ice cream there has a truck, he is preparing his ice cream so he does not have to charge tax on that, whereas I could be right beside him and I have to pay tax.

Mr. McFadden: That is the part of it that I find unfair from your point of view. You are both mobile; he has got a truck, you have got a bike. The vendor of the truck sells tax-free soft ice cream, I take it.

Mr. Carter: Yes.

Mr. McFadden: They would not sell hard ice cream from the trucks.

Mr. Carter: No.

Mr. McFadden: It is all soft. They can sell it tax free.

Mr. Carter: It is slush ice cream, popsicles and that sort of thing.

Mr. McFadden: I am trying to get an exact situation of what you are recommending. Are you recommending that we exempt from tax all prepackaged ice cream products?

Mr. Carter: No. I am asking the committee to put my business in the same category as that ice cream truck.

Mr. McFadden: Okay, so then all of the ice cream bars that you would sell from one of your vehicles would be tax exempt. A similar product sold out of the corner store would attract tax, or would continue to. I am just trying to figure out exactly what you are asking for.

I guess the problem we would head into there, of course, is that the corner stores would then say they are being discriminated against. I think you make a very good point, though, in terms of discrimination vis-à-vis other mobile operators. The problem we are going to have to come to grips with as a committee is what to do with the corner store that is offering the same product and that is probably creating jobs for kids. It is very frequently high school kids who work there.

I know your problem, which is a very direct one, and I am sympathetic to the point you are making, because I know it is tough in a small business.

Mr. Carter: It affects it right down the line, right down to the riders. If the riders in Halifax go out and sell $10 worth of ice cream, they receive $2. The riders in Ontario go out and sell $2 worth of ice cream and they receive 14 cents less.

Mr. McFadden: Now, would you be opposed if we were to recommend the removal of tax from ice cream bars across the board?

Mr. Carter: Would I be? No. I would not oppose it.

Mr. Chairman: Just to dramatize what you are asking, Mr. McFadden, if Mr. Carter were to open his packages or instruct his drivers to open their packages and put a couple of nuts on the top, he could avoid sales tax.

Mr. Carter: I was tempted to do that. A couple of years ago, I was going to put aerosol spray cans of air on my bikes, have the riders take out an ice cream and spray it with air to prepare it.

Mr. Chairman: That would have been an interesting test case. But that is the sort of silliness we want to avoid in our legislation. Mr. Foulds?

Mr. Foulds: Pretend I am 14 years old and I want to become a Dickie Dee Ice Cream salesman with a bicycle. There is a lovely location. There is a park that is a block and a half away from my house.

Mr. Carter: You are hired.

Mr. Foulds: How much do I get paid? Or how do I get paid?

Mr. Carter: That is a very good question. I am glad you asked it. Remember, you are 14 years old.

Mr. Foulds: Right. Can I get a job?

Mr. Carter: First, you would have to wait because of the fact that where I had 23 bikes before, I expect to be running 19 this year. I have had to take those 23 areas and reduce them down to 19 because the tax has produced fewer sales. So if you wanted to apply for a job, you would receive 20 per cent after sales tax.

Now, my way of explaining it to a 14-year-old is: "If you sell $100 worth of ice cream, you do not get 20 per cent of $100. I have to take seven per cent off $100. That brings it down to $93. You receive 20 per cent of $93. You would make $18.60." This 14-year-old is standing there, scratching his head, wondering what I have just told him. Can you think of an easier way to explain it to him?

Mr. Foulds: If the sales tax were removed, would you pay him $20 on $100?

Mr. Carter: You bet I would.

Mr. Foulds: Okay.

Mr. Carter: I might point out that, before the sales tax was put on my business, I was paying $20 on the $100. Sorry to interrupt, but I just wanted to point out that.

Mr. Foulds: Do they have to invest in the bike and so on?

Mr. Carter: No. There is a rental fee of 25 cents a day.

Mr. Foulds: Okay. One of the points that you make in background--and this gets back to the questions Mr. McFadden asked--is that no other province in Canada has a sales tax on prepackaged or scooped ice cream.

Mr. Carter: To my knowledge, yes.

Mr. Foulds: Okay. It might be easier for this committee to recommend the removal of taxation of prepackaged ice cream under $2, period. That would not present a difficulty to you, I understand, in terms of the route to allow the problem you give to us.

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Mr. Laughren: Would you allow a supplementary?

Mr. Foulds: Sure.

Mr. Laughren: Something is bothering me here. Before there was a tax, that young person got $20 on $100; now he gets $18.

Mr. Carter: He gets $18.60. I do not pay commission on sales tax.

Mr. Laughren: I understand that, but before, when the kid sold $100, he got $20. Now, if he sells $100, he gets $18.60.

Mr. Carter: That is correct, because our sales tax is--

Mr. Laughren: What you want is a higher sales tax. I am just trying to be helpful.

Mr. Foulds: It is late in the afternoon.

I find the point you raise intriguing. I am not sure I agree with all your arguments, but I find the ultimate point an intriguing one and a worthwhile one to consider.

I notice that between 1981 and 1982 there was a drop of about 5,000 dozens sold in Kitchener-Waterloo before there was a sales tax and an average drop of about 400. I am wondering honestly, from one of the previous arguments, whether the increased competition from Baskin-Robbins, ice cream parlours, corner stores and so on may not be one of the contributing factors in that trend.

Mr. Carter: I am committed to my business. I cannot see the person in Halifax selling more ice cream or being better at it than I.

Mr. Foulds: Except that they may not have had an influx of increased competition in other areas.

Mr. Carter: They have pretty well the same competition down there as we have up here.

Mr. Chairman: Was 1981 your first year of operation?

Mr. Carter: No. I started operation in 1979.

Mr. Chairman: I thought perhaps there was a novelty factor in the first year.

Mr. Carter: As I say, it is bound to go up and down a bit. Five thousand is a big drop, and I probably still have grey hair in my head wondering what happened that year. I have brought them another 1,000 dozen per bike, and it has raised. Halifax is still at 1,600. A 600-dozen difference on 20 bikes is 12,000 dozen. That is in that particular case. To me, that is what sales tax has done to my business.

Mr. Foulds: What I am saying to you is that I may not agree with the total thrust of that argument. I may think that sales tax is a contributing factor, but there may be other factors. We probably need to do some market analysis and so on to determine that.

The other point I would like to make, and it is a point rather than a question, is that I assume the rationale the Ministry of Revenue has, if it has any, for exempting scooped ice cream and not prepackaged ice cream is that scooping ice cream actually creates additional work at the retail level. If that is the argument, of course, you have a very solid case, because people who go out on their little bikes to parks and so on are creating additional work at the retail level. It is part of the whole question about processing in terms of the scooping as it relates to manufacturing. There may be an argument there. It is an intriguing point.

Mr. Chairman: Are there any other questions?

Mr. Taylor: Is that not a health standard? You could not scoop, because it would not meet health standards.

Mr. Carter: That is right. Ontario health regulations do not allow scooping ice cream from the ice cream bicycles.

Mr. Chairman: We were wondering whether there might be a warming factor with it. You do not have a pail of ice cream because--

Mr. Carter: First of all, I do not think a pail would fit inside the bikes.

Mr. Chairman: In any event, there are slight differences. I think we have given your proposal a thorough hearing. We appreciate your coming, Mr. Carter, and we particularly appreciate the fact that a number of different distributors from across the province have joined with you and, I presume, endorse everything you have said today. Obviously, it is something we are going to have to give consideration to. The Treasury is listening, and we will

have to see what happens when the budget comes. We appreciate your bringing it to our attention. Thank you.

Mr. Carter: Thank you.

Mr. Chairman: Tomorrow we will have the agenda that has been distributed to you: Bell Canada, the natural gas association and the Conference Board of Canada. You have your briefing books now, which have briefed those submissions--all of them?

Interjection.

Mr. Chairman: The first two. We do not have a brief from the conference board at the moment. They will have a presentation. That will be available for us at that time. You should also be receiving up-to-date briefing material shortly with regard to trade, so that we will be well fortified for our trip two weeks from now. That will be available in the middle of next week.

Mr. Foulds: I was not aware of this until I started unearthing all the memos that got sent to me over the last two weeks. I have not been on holiday, but I have not read any internal memos. We have a caucus meeting on April 9, which is the Thursday, in the afternoon. I think that may present us with a scheduling problem.

Mr. McFadden: Where is it?

Mr. Foulds: Nottawasaga. It starts at two o'clock and I need to be there for the afternoon.

Mr. Chairman: Does the NDP have any concerns about Bill 116? No.

Mr. Ashe: No, they do not have any.

Mr. Chairman: All right. That is the afternoon, Mr. Foulds?

Mr. Foulds: Yes. There is no problem with the morning session, because you can get up there in an hour. That is no real sweat at all.

Mr. Chairman: We will have to take that under advisement and the subcommittee will have to see what we can do. I know we have also booked off time because of the Conservative caucus.

Mr. Taylor: I will sub for you, Jim.

Mr. Foulds: As a matter of fact, Jimmy, I would take you up on that offer as long as you present my position. With your mental agility, I know you could.

Mr. Chairman: Just a moment ago I heard Mr. Taylor advocating that we nationalize the Dickie Dee Ice Cream company.

Mr. Ashe: Sure we should.

The committee adjourned at 4:17 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

TUESDAY, MARCH 24, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From Bell Canada:
Campbell, C., Director, Commodity and Property Taxes
Gibbs, A., Manager, Tax Studies

From the Ontario Natural Gas Association:
Pinnington, P. E., Managing Director
Anderson, J. R., Vice-President and Controller, Union Gas Ltd.
Callow, R. B., Vice-President/General Manager, ICG Utilities (Ontario) Ltd.
Aiken, J. L., Senior Vice-President, Accounting and Regulation, Consumers' Gas Co. Ltd.

Individual Presentation:
Mortimer, Dr. C. B., Chairman, Department of Ophthalmology, University of Toronto

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, March 24, 1987

The committee met at 10:02 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: Good morning. Tomorrow morning, members of the committee should remember to be here at nine o'clock sharp because Mr. Dryden will be here, specifically at our invitation. We have an extremely busy day tomorrow, even busier than today.

Mr. Ashe: I appreciate what you are doing and why you are trying to do it but I think it is unfair to our presenter. I fail to see a quorum.

Mr. Chairman: We will adjourn until there is a quorum.

The committee recessed at 10:03 a.m.

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Mr. Chairman: We have a quorum now.

Mr. Ashe: I see a Liberal in sight.

Mr. South: There are so many around now that you are intimidated.

Mr. Chairman: We have Charles Campbell and Allan Gibbs with us today from Bell Canada. Bell Canada presented us with exhibit 37, which members of the committee received on February 5. It has been briefed on page 72 of your briefing book.

BELL CANADA

Mr. Campbell: Perhaps we had better take you through the table of contents to highlight some of the areas of concern to Bell Canada and then perhaps we should sit back and respond to any questions the committee may have.

Of interest to Bell, of course, is the first one, the consultation process itself. We think the consultation process could obviously be improved. We think, for example, that the papers being presented are a very good focal point to address this kind of committee.

The company is firmly concerned about control of the deficit. We feel this is consistent with what has happened in the public sector. The press and editorial comments indicate a genuine concern that exists throughout the province that getting control of deficits is something we have to do. For example, we note in the document that public debt interest has risen from seven per cent of total expenditures to 11 per cent. Somehow the province has to come to grips with this issue and take a stand.

One of the areas where the process could be done would be the concept of restraining expenditures, specificly public sector wage settlements. We find

the level of settlements in the province is consistently higher than, for example, at the telephone company. We would be somewhat remiss not to bring that to your attention.

In terms of comprehensive tax reform, we recognize the province has to await the tabling of Mr. Wilson's document, but we wish to try somehow to identify to the province that, should it be in a position to influence Mr. Wilson, try to have him not shift the tax burden to the corporate sector. Try to maintain this idea of revenue neutrality, one thought he had initially that now seems to be getting blurred a little bit. We feel, for example, there is increasing competition in Canada and abroad. By burdening the corporate sector, they may just be worsening that problem.

In terms of the corporation's income tax, we have examined our situation vis-à-vis Quebec and we find Ontario's corporate tax burden is higher than it is in Quebec. For example, in the context of Bell Canada, the tax burden for the average access line, which essentially is the line providing dial tone--it is a measure--is about $58 per average line and in Ontario it is about $75. That is some 29 per cent higher.

I guess the basic reason for that is that Ontario's corporate tax rate is about 15.5 per cent, where Quebec's is about 5.9 per cent. I think there is some concern that this rate should not rise, and if possible perhaps you should lower the rate. One suggestion for lowering the rate may be to broaden the base with comprehensive tax reform or to shift more into a consumption-type tax.

One other point we would like to bring to your attention is the half-year rule for capital cost allowance. Currently, Ontario provides capital cost allowance on the basis of a half-year rule. I would like to suggest that perhaps it could restore the full-year capital cost allowance in the initial year of acquisition. If Ontario were to introduce this measure, it would go some way towards addressing the disparity in corporate tax rates. It is something you have done in the past. It is something you did not always harmonize with the federal government and we feel there is some scope to do that again this time.

The minimum tax for corporations is something I think every corporation has some concerns about. The concern is essentially that the danger exists of using the wrong measure to cure the wrong ailment. We would want to make sure that this thing is fairly analysed in terms of the cost benefits, that the illness there is truly perceived to be cured by the minimum tax. We have some concerns in the area about that.

I think a standing committee of the House of Commons introduced some documents that stated there may be some potential abuses of the minimum tax at the individual level. We can see some of these concerns and abuses carried forward to the corporate level. It is an area that is a "go slow" in our mind.

In terms of scientific research and development, this is a rather interesting situation. Ontario does not currently provide an R and D incentive in the province, but the federal level does and so does Quebec. Ontario taxes the federal and also gets a benefit out of Quebec, so there is a kind of windfall profit in this area being given to the province. There is no credit given to the corporation, but in fact it is picking up some of the benefits given to the corporation by the federal credit and by the Quebec credit. We

have an example that may be offered. We will take a $100 example and show you how it works.

In terms of the individual tax rate structure, Quebec is at 56.5 per cent currently and Ontario is at 52.5 per cent. Those are the top rates. There is not much room for Ontario to escalate that 52 per cent. In fact, if you wish to lower the rate, we suggest that rather than getting that revenue source from the corporations, you should go into the idea of a consumption tax. I am thinking here perhaps of the BTT tax, the business transfer tax that Mr. Wilson is speaking about.

In terms of retail sales tax, there are two areas we would like to point out. One is that there seems to be quite a push in terms of research and development in the province that is geared towards the manufacturing sector. There is a service sector that does not currently enjoy the same kind of benefit on R and D material that is given to the manufacturing sector. This exemption is currently given under section 5 of the Retail Sales Tax Act. We would like to suggest that you perhaps broaden that section and extend the exemption to nonmanufacturing companies such as service companies.

In the past, the province has also given relief to building materials and construction equipment. It is quite clear from the document the province has tabled that this is a growing sector that is expected to lead the overall growth in the province in the period from 1980 to 1990, and we are suggesting that perhaps you would give it another stimulus if you were to remove the sales tax on those items, which should have a spinoff benefit to housing, etc. Naturally, you will benefit the telephone company in terms of increased demand for sets.

There is one technical point we raise to do with transfers between related parties. This truly is a kind of anomaly where the retail sales tax gives relief when a company enters the province in total. It gives relief for the goods brought into the province. It does not give the same relief if we bring in a branch of a company. This seems rather odd because you can have a small company come in or a large branch. The small company would get the relief; the large branch would not. We are suggesting that you abolish this and treat them both equally.

There is something else that applies in terms of intercorporate transfers of assets. This is a one-time-only transfer. Our feeling here is that this should almost be at will. Any time you have a hierarchy and it is the same company that controls all the subsidiaries, any move within a subsidiary should always be tax-exempt. There is no reason to exempt it once, tax it the second time and then exempt it the third time. You should make them all exempt. In fact, if it cannot be done on a totally exempt basis, it should be done on the basis of ownership. You own 50 per cent of the company and you get a 50 per cent tax-free rollover. This is just something that cleans up kind of a messy section.

Of course, the company has substantial properties in the province and is concerned with property tax. Like a lot of people, we would urge the minister to continue to take whatever action is necessary to achieve market value assessment. This is particularly important in the Metropolitan Toronto area. It is fair to say that we recognize that bringing in market value means some winners and some losers and there has to be some way to address this issue. If this is a concern to the House, what the minister may wish to do is to phase

it in so that the benefit is given immediately but the costs are borne on a phase-in basis.

There is also a concern we have about section 63 assessments and the possibility of introducing differential mill rates. Section 63 assessments in the province are not as good as market value but they are a step in the right direction. If you introduce this idea of variable mill rates for various classes of property, we feel you are bringing in another variable that is almost at the whim of councils and could lead to some kind of prejudice or to disproportionate tax burdens. This has happened in other provinces; for example, in Alberta, and it is certainly a concern in Newfoundland. We would not want to see the same thing arise here. If market value is the basis of tax, let us have market value. Let us establish mill rates that are uniform. Let us not try to blur the two.

The second point, again in property tax, is that we have the Municipal Interest and Discount Rates Act.

Mr. Ashe: I wrote that.

Mr. Laughren: Yes, I am sure you did.

Interjections.

Mr. Campbell: Our concern here is that certain municipalities in have passed bylaws under this act allowing interest to be paid, at rates determined by council, on tax refunds that come about as a result of successful assessment appeals, but not every municipality has done this. Some municipalities charge on overdue assessments, but they do not give interest on their refunds. We feel it would be equitable to have reciprocity here. If I have to pay interest, at least let me receive interest. There is an interest in actually getting the money back but it may help speed up the assessment process. If there is an interest on the part of the municipality to resolve the file because it may have to pay interest to the applicant, maybe it may just speed up the file.

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Then our conclusion. Our biggest concern has to be the continuous deficits that appear now to be gaining some kind of legitimacy. In the good years we shouls actually try to draw down the deficits rather than let them just continue. On the income tax side, we have concerns about corporate tax reforms. We would like to stress to Ontario to interface with the federal government to make sure it does not shift any more burden of the tax to the corporate sector.

There are two particular problems currently with the tax act, one with the research and development issue and the other the capital cost allowance, which I think we can resolve. These suggestions and all other suggestions would perhaps make it a better budget. Do you have any questions?

Mr. Chairman: You raised some interesting concerns, not the least of which is where tax reform is really going to go. Mr. McFadden has a question.

Mr. McFadden: With regard to the question of research and development nationally, what amount of research and development does Bell Canada carry out in Ontario as opposed to the other provinces? Do you tend to concentrate most of it here? Do you spread it around the different provinces?.

Northern Telecom of course is--what is the relationship? Is Northern Telecom a subsidiary or a related company?

Mr. Campbell: A related company. We are both subsidiaries of Bell Canada Enterprises Inc.

Mr. McFadden: Okay. Just to try to get a handle on the total Bell family, if you will, where is your research and development carried on?

Mr. Campbell: At the moment, the vast majority of the research is carried on in Ottawa at Bell-Northern Research. I do not have actual dollars to tell you how much is done in Quebec and how much is done in Ontario, but certainly the largest facility is itself in Ottawa at Bell-Northern Research labs.

Mr. Gibbs: There are facilities at Nuns' Island.

Mr. Campbell: There are some in Quebec and we also carry on a certain amount of R and D ourselves internally. I would hazard a guess that the effort would be something along the lines of revenue of say 65-35 with 65 per cent being Ontario. That would be my best guess.

Mr. Gibbs: That is strictly a guess because we do not have an actual handle on the division of dollars between the provinces.

Mr. McFadden: If the province were to bring in some research and development incentives, what would be the impact on a company like yours, which I know has a pretty fair commitment in research and development? What would be the impact on your company?

Mr. Campbell: We are actually unable to quantify, for example, that a five per cent credit would generate X number of dollars in research, but certainly it has to be a beneficial impact. Right now, we are being penalized in some ways--not penalized, but right now the province of Ontario picks up the benefit because of the credit given, so it should at least pay back the credit or pay back the windfall. There is a benefit given to the province because of the federal credit, which is allocated to the province, and of course the Quebec credit. At least if you were to offset that by about a five per cent credit--I think that is what it is now, is it not?

Mr. Gibbs: Yes, there is about five per cent spent on total R and D in the province.

Mr. Campbell: Five per cent on total R and D. It will just roughly offset the benefit that is currently being given to the province, but to be specific about it, I could not tell you dollar for dollar what the increase would be, but it certainly has to be beneficial.

Mr. Gibbs: Right now, Mr. McFadden, we do about $121 million in R and D in Bell Canada.

Mr. McFadden: Is it $121 million right now?

Mr. Gibbs: Approximately $121 million.

Mr. McFadden: Nationally?

Mr. Gibbs: In Bell Canada. That is Ontario and Quebec.

Mr. McFadden: Yes, $121 million.

Mr. Gibbs: What happens is, the fact that you can generate something over a $20-million federal tax credit and the fact that Ontario taxes that tax credit, Ontario picks up about $2 million. From the simple fact that we have a research and development credit from the federal government, Ontario picks up $2 million as a windfall because it taxes that credit. Similarly, we get a credit from the province of Quebec. Quebec gives a credit of 10 per cent on the labour component for the R and D in the province and that generates about $1.3 million, of which Ontario picks up $500,000. Ontario picks up $2.5 million out of credits that are given by the federal and Quebec governments. Just as a break-even point, if Ontario were to establish a five per cent credit on the total R and D done in the province, it would simply equal or offset the windfall revenues the province is getting. If you want to do something beyond that, you are looking at something beyond five per cent, but just to break even it is five per cent. Alternatively, it could give a 10 per cent credit on the wage component of the wages expended on R and D in the province.

Mr. Campbell: It would be somewhat similar to Quebec.

Mr. Gibbs: Exactly.

Mr. McFadden: I guess you could argue that this is beneficial to the provincial Treasury.

Mr. Laughren: In order to reduce the deficit.

Mr. McFadden: Yes. One of the problems we have in the committee (inaudible) saying: "Let us get out of this. Basically we lose some revenue, but there is no upside except that we lost some revenue." I am curious to know, and you started to allude to that, whether there is some material advantage that would develop for your company that would encourage you to do more R and D.

I think anybody who observes the current world scene knows the importance of research and development and the fact that Canada is lagging badly as a country. I guess we are almost the worst of any industrialized country, of any advanced society right now. I am curious to know whether, if we were to do this, it is going to encourage you to do more, and based on your past experience, how much more, or whether we are just giving up some tax revenue with no bottom line advance.

Mr. Campbell: What we could do is try to quantify that and come back at you with some kind of analysis that said if we had five per cent or 10 per cent, just what the additional R and D effort in the province would be. We do not have it now, but we could try to come back with an answer to that question.

Mr. Gibbs: It could not help but be positive.

Mr. Campbell: That is our feeling, but if you want it quantified as to how much, we will have to get back to you.

Mr. McFadden: What are the total revenues on which the $121 million spent on R and D is based?

Mr. Gibbs: If you are talking about the amount of business we do, we have gross telephone revenues of $4 billion in this province, and in Quebec about $2 billion, so we are talking about $6 billion in total revenues. When you are talking wage payments, we have about $1.1 billion in Ontario and $0.7 billion in Quebec, so we are talking about $1.8 billion. It is a big operation, but I am talking about the magnitude of the company.

If you are talking about R and D specifically, as I said, we have $121 million and we cannot get a handle on the split between the provinces. The reason is that some people are working on R and D on a project basis. You can take a person who is working on R and D for four or five months on a particular project, then he is off on something else.

We do not really have bodies to whom we can say, "You are an R and D body." We have some, but we cannot give you a count of the people, if you will, who are working on R and D. We can probably get some hours. We have tracking systems that would give total hours spent on R and D, but again we have had difficulty quantifying it between the provinces. Although if you came out with an R and D tax credit, we sure as heck would set up the systems to track it.

Mr. McFadden: Do you have any comparative figures on what Bell Canada spends on R and D, or similar companies in the United States or in Europe? Are we average, above average or below average? Do you have any comparable figures at all?

Mr. Campbell: No. I think, in fact, that question could probably be better answered in terms of the Bell Canada Enterprises complex, which is Northern Telecom, Bell-Northern Research and Bell Canada by aggregating them together and saying, "Now what do you fellows do collectively?" We could try to get an answer to that question.

Mr. McFadden: The reason I am getting at this is that your company or at least the Bell family of companies is held up as one of the great models. You have clearly been on the cutting edge of a lot of new technological development. What I was really getting at is how your commitment would compare with other countries.

Mr. Campbell: I have heard things such as that we are spending a significant amount of money, etc., but I cannot tell you the exact figure. We will try to come back with something on it.

Mr. McFadden: The final thing I wanted to ask about related to the deficit--

Mr. Chairman: Do you have any more on R and D, Mr. McFadden?

Mr. McFadden: No.

Mr. Chairman: I have a supplementary on that point, if I may. I am just curious as to when the operation--it is in Kanata, is that correct?

Mr. Campbell: That is right, yes.

Mr. Chairman: When was it built?

Mr. Campbell: Early 1970s.

Mr. Chairman: Were the federal tax laws, Quebec tax laws and Ontario tax laws comparable at that time?

Mr. Campbell: I honestly do not know.

Mr. Gibbs: Neither do I.

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Mr. Chairman: I am just curious as to whether Quebec was considered or whether you chose Ontario in any event.

Mr. Campbell: In those days, Ontario had a lower personal tax rate than Quebec.

Mr. Chairman: Yes.

Mr. Campbell: I think that in those days Ontario had a lower corporate tax rate than Quebec. That is from memory. As to whether one of the specific research and development programs in the two provinces was better or worse than the other, I really do not know. There were factors in 1970 for putting that plant in Kanata, but they were a little larger than tax. It had to do with the location and this concept of Silicon Valley. There may have been some dialogue with the province in terms of a variety of issues, not uniquely tax. Certainly with respect to the personal and corporate taxes, Quebec was at a disadvantage at that point.

Mr. Chairman: It is interesting in that it begs the question as to the extent to which we are losing any industry because of the tax situation.

Mr. Campbell: Yes. I cannot tell you that you are losing any, but I suspect there could be some loss. The effort may not be as great as it may otherwise have been, if you had those incentives. I will try to get some clarification on that.

Mr. Ashe: I have one thing, if I may, just to finish that area. Obviously, that has to be a factor, but you just gave the numbers yourself. Your revenues in Ontario are roughly two to one to what they are from Quebec. It is twice as big in Ontario as it is in Quebec, so surely that has to be some factor for any responsible company, and we hope Bell is responsible.

Mr. Campbell: Bell-Northern Research at that time was closely tied in with Northern Telecom, and what was quoted here was really telephone revenues, as opposed to more consolidated revenues. I do not know whether the relationship really exists.

Mr. McFadden: I have one final matter related to the control of the deficit. I know you mentioned at the very beginning the continuation of a deficit in Ontario as a concern of yours. As I understand what you said, you particularly highlighted the need to limit public sector wage settlements to reflect the kind of wage settlements in other industries. I have two questions on that.

The first is in terms of trying to isolate what you believe is an appropriate increase in wage settlements for Ontario. I would be interested to hear from you what you think would be an appropriate range in terms of the public sector.

Second, we on this committee over the past couple of weeks of hearings and, I assume, during the rest of our hearings before we start work on our report, are receiving submissions urging us to spend a lot of money on everything from colleges and universities to the public school system to the road system. We are led to believe that if we do not spend a massive amount of money, the road system may sort of peter out and we will have no roads on which to drive our trucks or deliver our high-technology components, because we will have no roads that are driveable.

We have received a lot of submissions. I am curious to know from your point of view whether there are any areas that deserve some new spending priority. Do you think we should essentially hold the line, or do you think there are areas where we could be making economies over and above your suggestions dealing with public sector wage settlements?

Mr. Campbell: Frankly, our brief does not really address that. We just wanted you to control the public sector wage settlements, somewhat in line with what we have had in the private sector, such as Bell Canada. They may not be exactly comparable. Certainly you are paying one per cent or 1.5 per cent above what we are paying and that is something which has to be looked at. Frankly, that was as far as we got.

I could give you the ratios. For example, in 1985, the Bell Canada wage settlement was 3.6 per cent in the province. In 1986, it was 3.6 per cent, whereas the public sector was about 5.1 per cent. There is something to do with that.

Mr. Foulds: With respect to those questions about wage settlements, does that apply only to unionized or hourly rated employees or does it apply to executives as well?

Mr. Campbell: That is management and nonmanagement.

Mr. Foulds: What would be the salary of your chief executive officer?

Mr. Campbell: Frankly, I do not know. I have heard figures, which I think were in some of the published reports, of a couple of hundred thousand; maybe half a million. I really do not know.

Mr. Foulds: The Premier of the province gets about 75 grand.

Mr. Campbell: That is right.

Mr. Foulds: Do you think the Premier's job is as important as that of chief executive officer of Bell Canada?

Mr. Campbell: I would not touch that question at all. I have to go back to work for that company.

Mr. South: Let us talk about baseball players.

Mr. Foulds: All right, or George Peppard who gets 70 grand for one episode of the A Team. When you are comparing public service and private employees, you are comparing apples and oranges, so I am not sure that a strict percentage parallel is a justified objective, depending on the industry and the sector of the public service.

Mr. Campbell: Our only point was that we had something such as a per

cent and a half and we thought that at least bore examining. Once examined, we felt that it really was an apples-and-oranges or chalk-and-cheese situation. It was worth examining and you would probably agree with that.

Mr. Foulds: Okay.

Mr. Partington: What is the average sick leave taken by a Bell employee in a year? Do you have that? I understand that at one time it was about three days a year. Is it three or four?

Mr. Campbell: I know there is a big push on corporately right now to reduce sickness absence in the corporation. I do not know the answer to that, but it must have been creeping up for them to have put this push on.

Mr. Laughren: I have a short question. You will have to help me. I am just a country boy from the north and I do not quite understand the capital cost allowance and the position of capital assets. Suppose you were to buy or build a capital asset that was worth $10 million and in your recommendation you are asking for a full year's capital cost allowance on acquisition of capital assets in the first year. If you spent, let us say $1 million on a capital assest, how would that work? What are you suggesting? I do not really understand it.

Mr. Campbell: I think that historically, if you bought an asset in December and you only owned it for part of December, you were allowed a full year's capital cost allowance on it.

Mr. Laughren: Right.

Mr. Campbell: What the government has done now is it has said it depends when you bought it.

Mr. Laughren: I see. That is what you mean by a full year.

Mr. Campbell: That is right.

Mr. Laughren: I see. My question is more generic than that. Is a capital cost allowance like a tax credit?

Mr. Campbell: It is like a tax shield.

Mr. Laughren: So if you spent $1 million acquiring a capital asset, say on January 1, how would that affect the taxes you would pay at the end of the year?

Mr. Campbell: If you assume the tax class was 10 per cent, you would have $100,000 you could offset.

Mr. Laughren: So it is based on a percentage of the--

Mr. Campbell: On a per cent value, depending upon the asset purchased.

Mr. Laughren: Thank you. You see, it was not a trick question or anything.

Mr. Campbell: No.

Mr. Haggerty: I have a question to direct to the panel in regard to comprehensive tax reform. I am a little puzzled by the statement "...every effort should be made to strengthen the competitiveness of industry in Canada and Ontario." I was wondering where Bell fits into this matter when it seems to be a monopoly in this area?

Mr. Campbell: That is quite true, but the problem we have now is that with interconnection taking place you could have a carrier company just parked across the border. It could pick up Canadian traffic through the United States border, transport that traffic across the US and bring it back on the west coast, so there is a competitive situation arising where you would normally think it would be a monopoly service. There is no competition for local service within the province. We are almost unique. We do not cohabit that area with anyone else. Certainly, toll tax is subject to it.

Mr. Haggerty: You are talking strictly about communications now.

Mr. Campbell: Yes. In addition, if you go beyond that further, you can get to the provisioning of equipment. I think you have an interesting point, though.

Mr. Gibbs: At the risk of boring everybody, can I read this?

Mr. Haggerty: I do not think you would be boring anybody. We would be interested in it.

Mr. Gibbs: If you do not mind, this is an extract from Bell Canada's submission on Canada-US trade and free trade.

Mr. Haggerty: I see.

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Mr. Gibbs: It talks about, "On changes to Canadian policy regarding new entry into the telecommunications services division".

I will just start here: "The framework governing competitive entry into Bell Canada's operating territory is currently defined by a number of landmark CRTC decisions. Specifically, following CRTC decisions 80-13 and 82-14, the highly competitive terminal equipment market has emerged with active participation by subsidiaries of US and other foreign firms.

"Radio paging services and interconnected private and public mobile services are also competitively provided; cellular mobile services provided by Bell Cellular Inc. and by Cantel Inc., which is 20 per cent owned by Ameritech.

"Following the enhanced services decision, CRTC 84-18, various enhanced services may be provided by non-Telco service providers using underlying transmission services leased from common carriers. Subsidiaries of US firms are free to participate in this market.

"Finally, CRTC decision 85-19 has opened up business opportunities for new entrants by authorizing (a) resale of interexchange services to provide interexchange services other than MTS/WATTS; (b) the interconnection of the public switch telephone network of private (voice and nonvoice) and public (nonvoice) interexchange systems.

"When the relevant provisions of CRTC 85-19 come into effect, Canadian subsidiaries of US firms will be free to establish (a) resale operations for the forms of resale which are permitted; (b) businesses providing installation and maintenance of interconnected private interexchange systems; and (c) businesses owning and operating interconnected public nonvoice intraexchange systems.

"The issue of resale to provide primary exchange voice services is currently being considered by the CRTC in a follow-up proceeding. If such resale is authorized as a result of the proceeding, business opportunities would be open for new entrants, including Canadian subsidiaries of US firms. It is clear that in the territory subject to CRTC jurisdiction a variety of market entry opportunities in the provision of very extensive telecommunications services already exists, or will soon come into being. These market entry opportunities are available to Canadian subsidiaries of US firms.

"Notwithstanding the opportunities available in Canada to subsidiaries of US firms, as outlined above, it is possible that the US may seek changes to existing Canadian policies regarding new entry into telecommunications services provision in the context of the forthcoming Canada-US trade negotiations."

Our position is that it does exist today and will continue to exist and intensify.

Mr. Haggerty: Is there any chance, in what they call free trade with the United States, that American Telephone and Telegraph will be moving into operations in Canada then? You are talking about competitiveness in this area. What effect will free trade have upon the telecommunications systems here within Canada?

Mr. Campbell: It certainly could have an impact. We currently have US subsidiaries of AT&T operating in the province, and I think that if you were to lessen whatever impediments they had, then more would come in. I cannot tell you exactly how many, when or in what areas.

Mr. Haggerty: Would that have a damaging effect upon Bell operations in Canada?

Mr. Campbell: Certainly in terms of the interconnect market, the terminal market, I think it has to be. I think we have seen that happen. Currently in Canada we have Canadian suppliers who have been eating into the terminal business, and if you bring in foreign suppliers bringing in foreign products, then I think you have to say there will be competition in that area.

Mr. Haggerty: Have you done any evaluation in job enrichment or job losses in this area?

Mr. Campbell: Not that I am aware of.

Mr. Haggerty: Would there be some loss in jobs?

Mr. Campbell: I think there would be attrition in the work force generally. We have fallen from 55,000 employees to something less than 50,000, to 48,000 or something. How much of that is attrition on a planned basis? How much of it is part of the technology of competition? Probably it is a combination of them.

Mr. Haggerty: In other words, your work force is being reduced, but through attrition. Again, we get into the area of free trade. It may be reduced due to something--

Mr. Campbell: Yes it may be escalated or accelerated because of that.

Mr. Gibbs: Just from a tax point of view, we talked about the capital cost allowance before, and in the United States it is interesting to note that, and I will just get my notes here. Just give me a minute.

Mr. Chairman: Maybe a quick supplementary.

Mr. Partington: Following what Mr. Haggerty was saying, we see you have the negative approach about free trade in Ontario. If you are concerned about competition here, if freer trade is opened up, are you not going to have additional markets in the United States that may offset that?

Mr. Campbell: I guess the question is the relative strength of our going in versus them coming in. Our concern is that they may be stronger.

Mr. Gibbs: From my notes, just on that capital cost allowance question, in the United States capital cost allowance for central office equipment, which is our switching equipment, the Americans can recover the cost of their capital investment in five years; in Canada, it takes 14 years. They are recovering 100 per cent; in that 14 years it is required that we recover 95 per cent.

On our station equipment, the Americans recover the cost in seven years; it takes us 14 years. On outside plant, our cable, they are recovering their cost in 15 years; it takes us 59 years to get back 95 per cent of our capital cost. On their buildings, they recover their cost in 31.5 years; it takes us 59 years to recover our cost. Clearly there is a discrepancy between the two.

In fibre optic cable for example--this is the way we are going; the technology of today and the future is fibre optic cable--they are recovering their cost in 15 years; it takes us 59 years and we have already gone through three generations of fibre optic cable, and have only started in the 1980s.

Interjection.

Mr. Gibbs: It is going to be difficult to compete on that basis.

Mr. Ashe: To comment on the last part before I get into my particular question, there is no doubt that in the minds of the so-called experts, the free trade initiative will benefit the telecommunications industry to a great degree because in terms of technological advance, in Canada we are considered to be, as you well know, world leaders. Bell and the companies associated with Bell are doing work, I think it is safe to say, in many parts of the world.

I think that competition is good. Frankly, to have some more in from the US would be very good. You will not like this one, but probably if Bell had never ended up with any competition in the interconnect markets in Canada, we would still be back with our black telephones with the mechanical dial because it did not want to put forth the extra initiative, if you will, to use the technology that was there at the time. Anyway, that was not the point I wanted to get to.

I am curious and interested in your points on property tax reform, something I have had fair interest in, as a matter of fact, over the years. In that regard, I appreciate what you are saying here. Two particular questions: I frankly forget, but from some of the studies I have seen in some areas, I think it is safe to assume that in most municipalities where property tax reform, section 63, has gone in, Bell has been a winner more often than a loser. I kind of got that impression. It did not quite say that, but I think that was a safe conclusion.

Having said that, do you not think you are being a little greedy in saying, "It may be appropriate that those properties enjoying tax reductions receive 100 per cent of the benefit in the first year and tax increases be phased in over no more than three years," keeping in mind that the whole principle of a reassessment, regardless of the municipality, is that what comes in is what comes out at the other end. It is in theory not a tax grab which is the way some portray it, of course.

How could you do that? That would be like Bell making a proposal, I can appreciate, to the Canadian Radio-television and Telecommunications Commission saying, "For all those areas and the rates that are going to go down, we are going to put them into effect right away, but in all those where it is going to go up, we are going to phase it in over the next three years." I cannot imagine Bell making that kind of a proposal in front of the CRTC.

Mr. Campbell: We are talking about the financial realities and the political considerations. We are talking about the universe in general, not uniquely Bell Canada. Certainly, I think it would be difficult for the company to say--

Mr. Ashe: I appreciate that. You are in the 100 per cent get-it-right-away market.

Mr. Campbell: Yes, but really our concern was to make sure that everybody within the population, the individual home owner as well as the corporation--you are right, we would be the winners, but I cannot say we would be winners in all situations.

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Mr. Ashe: No, I am sure.

Mr. Campbell: It was more or less in terms of making sure the municipality was not disturbed, and of course, we would not be disturbed either.

Mr. Ashe: Keep in mind that municipalities, since day one under the section 63 reassessment, have had the option of phasing in tax reform. Virtually no municipality--I think the last number I saw was still down to two--chose to phase, but that option has always been there at the choice of the municipal council. It did not work just one way, though. You phased up and you phased down.

Mr. Laughren: Why are you so apologetic?

Mr. Ashe: I am not apologetic at all. It is funny that some of us figure fairness and equity for all and some of us do not.

Mr. Chairman: We appreciate your coming here this morning and giving

us the benefit of your concerns. Obviously, they have raised all kinds of interest on the part of members of the committee and we will certainly take them into consideration when we are preparing our report to the Treasurer (Mr. Nixon).

Mr. Ramsay: Is Mr. Laughren near the end of a hormone surge this morning or something? What is the problem?

Mr. Chairman: He is just a little country boy from the north. We have to excuse him.

There are a couple of points I would like to make while the next presentation is being set up. First, you have probably read that the federal committee has released a report on credit card interest rates. I had the opportunity to talk to the chairman over the weekend. Apparently, there is a fair amount of substance in that report that has to do with provincial jurisdiction. We are in the process of attempting to obtain copies of that report as quickly as possible. Somehow or other, we may well be able to get it on our plate to consider it.

Second, I mentioned this at 10 o'clock but I will mention it again now that everyone is here. Tomorrow we start at nine o'clock. Mr. Dryden is our first witness. He is here at our invitation. I would appreciate it if we have good attendance early tomorrow.

Mr. Foulds: I promised him personally that I would be here at nine o'clock.

Mr. South: That will be the first time.

Mr. Foulds: Ever.

Mr. Chairman: Now we will have a short moment while the natural gas people get ready. We have the blue brief. If you want to check with your offices, exhibit 3 was distributed on February 5.

All right. Let us get started again. We have with us this morning the Ontario Natural Gas Association. P. E. Pinnington, managing director, is here, along with a number of other personnel. We have J. R. Anderson, vice-president and controller of Union Gas Ltd.; J. L. Aiken, senior vice-president, accounting and regulation, at Consumers' Gas Co. Ltd.; E. R. Austin, president of Cliffside Utility Contractors Ltd.; and R. B. Callow, vice-president and general manager of ICG Utilities (Ontario) Ltd.

Mr. Pinnington, the floor is yours. I realize that you came here thinking you had about an hour. We are going to try and accommodate you if at all possible. We are not certain about the situation with regard to our next witness, so please carry on.

ONTARIO NATURAL GAS ASSOCIATION

Mr. Pinnington: My colleagues and I welcome the opportunity to be here today and to bring to you the views of the members of the Ontario Natural Gas Association.

As you have already introduced my panel, let me indicate that copies of our submission have been made available to all of the members of the committee as well as to the clerk and your researcher. We have made copies available to

Hansard as well. Additional copies are available for interested parties. With your permission we will present a review of our submission. We have slides available this morning that we expect will take approximately 20 or 25 minutes, following which we would be pleased to respond to any questions.

Members of the Ontario Natural Gas Association are encouraged by the opening up of the policy and budget process. I hope it will foster debate on key issues, improve all-party understanding, sharpen the policy focus and lead to positive public policies. We understand that this committee has been given the mandate to examine broad economic and fiscal matters affecting the future of the province and to advise the government on appropriate courses of action. The committee is to receive annually from the Treasurer a briefing on the economic and fiscal outlook and is to make recommendations for budget policy.

It is in this constructive spirit that our association has submitted a brief on economic, fiscal and energy concerns. Ontario faces a number of challenging policy issues affecting the business environment and the wealth-creating capacity of the province. Moreover, energy security at reasonable cost remains a key strategic issue for Ontario with important economic and fiscal ramifications. We hope this brief will be helpful to the committee in assessing Ontario's economic and fiscal situation, and in making recommendations to the government.

I now will ask Jim Anderson, under whose direction this brief was prepared, to go through the slide presentation.

Mr. Anderson: The Ontario Natural Gas Association is pleased with the opportunity for input that this committee provides. We have taken this process seriously and we appreciate the difficult task the committee has before it. Our submission is intended to help the committee as best we can, and while recognizing that we are speaking from the point of view of the natural gas industry, we have tried to be as objective as we can.

Our written submission contains eight subject areas. For the purpose of this highlight presentation, our brief comes under three broad headings, the economy, the budget and energy.

Dealing first with the economy, we see a promising outlook in the near term. While there remain areas of regional disparity, four years of steady recovery has the overall economy in good shape. While the economic recovery has shown signs of pausing, the outlook for the next year calls for real economic growth in the three to four per cent range, inflation in the range of four to six per cent and further employment gains are expected to drive the unemployment rate below seven per cent.

There are, however, some challenging issues before us. These issues are in the areas of productivity, technology, trade and competition. The response to these issues in the coming months and years will greatly influence the future prosperity of our province.

Productivity is a major concern for the economy. Economic growth is a composite of growth in employment and productivity. Looking longer term, the rate of labour force growth is projected to decline over the next 20 years and will be somewhat smaller than the overall increase in the population.

Productivity is difficult to measure, but there is evidence it also has declined over the long term. If sustained rates of annual increases in economic output of three per cent or more are to be achieved, productivity

must be raised. Higher productivity will be essential in an increasingly competitive international trading environment.

The standing committee should enquire into ways and means of boosting the productivity of the Ontario economy and make appropriate recommendations to the Treasurer and the Minister of Industry, Trade and Technology (Mr. O'Neil).

One of the ways in which productivity is increased, of course, is through technology. The natural gas industry actively promotes the efficient and economic use of energy through technology. The industry's efforts focus primarily on development and demonstration to identify, adapt and apply existing technologies, thus reducing technology lags.

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In the 1984-85 fiscal year, the Ministry of Energy reported government funding for research and development expenditures of $11.6 million supporting solar, waste, hydrogen, fusion and other alternatives. Energy conservation expenditures amounted to $14.8 million. Funding in both areas was down substantially from the 1982-83 fiscal year when $25 million and $17 million, respectively, was expended. This appears to be a discouraging trend.

However, a relatively new provincial initiative that the Ontario Natural Gas Association supports is the Ministry of Energy's EnerSearch, a program for the development of energy technology. This program, along with the $30-million Canada-Ontario agreement on conservation and alternative energy, announced September 18, 1986, will help keep Ontario moving towards greater energy efficiency.

The association also notes the government's commitment to developing Ontario as a technologically advanced society and the creation of a 10-year, $1-billion technology fund to be managed by the Premier's Council. We believe that energy technology has a role to play in achieving the government's goals. The Ministry of Energy has shown good initiatives in technology and, in co-operation with our industry, could develop approaches that would strengthen Ontario's long-term energy security.

We believe the standing committee should advise the Ministry of Energy to develop plans for participation in the new technology fund activities.

The next issue is trade. I do not have to tell this committee about the importance of international trade to Ontario's economy, particularly trade with the United States. According to the Ministry of Industry, Trade and Technology, Ontario-US trade is the second-largest trading relationship in the world, second only to Canada-US trade. I am also sure I do not have to tell you about the growing protectionism in the United States arising from chronic trade imbalances. In this atmosphere, we strongly support the government of Ontario's cautious approach to US-Canada trade talks.

In our role as energy suppliers to Ontario, association members are concerned that Canada's and Ontario's requirements for secure, long-term energy supplies at a fair price not be compromised. The US economy is 10 times the size of Canada's and its energy needs are correspondingly greater. Canada has abundant energy reserves relative to its own needs; however, even modest increases in US energy demand could quickly strain its capacity.

We believe the committee should advise the government that Ontario's

interest in secure access to Canadian oil and natural gas resources at competitive prices must be protected in trade negotiations and in a new market-responsive pricing environment.

That brings me to the area of competition. Competition is nothing new to the natural gas industry. We have competed successfully for years with unregulated oil, electricity and other forms of energy. However, the movement towards deregulation of energy markets has changed long-established practices and relationships. Previous to November 1, 1985, all gas shipped into Ontario was sold by western producers to TransCanada PipeLines which, in turn, shipped the gas for sale to the Ontario utilities for delivery and sale by the utilities to end users. Now, open access to transportation service on TransCanada's system and the distributors' systems allow end users in Ontario the ability to purchase gas directly from western producers.

By and large, this is a positive change and is supported by the Ontario Natural Gas Association. However, one potentially negative result of this is the threat of some large industrial users in Ontario to bypass the distributors' system. While this may lower costs to such individual users, it would be at the expense of many other users on the system.

The distribution utilities have applied for the rate and regulatory flexibility to effectively compete against bypass in order to keep rates as low as possible to all customers.

Ontario's political needs related to energy must be made clear. We believe the standing committee should advise the government that clear policy direction to the Ontario Energy Board on the implementation of market-responsive pricing is required.

The next major topic that our submission covers is the area of the budget. Under that, there are two topics: tax reform and deficit. As this committee well knows, tax reform has become an issue in many countries, the most notable to Ontario being the United States. Concerns include the effect of taxation on savings and investment, on work versus leisure, on services versus goods and among industries. Narrow tax bases and high and variable tax rates have become common and are believed to be detrimental to economic growth since they interfere with free market forces and encourage a less-than-optimum allocation of resources.

At the risk of oversimplification, broader tax bases and lower rates of tax are required. Moreover, the role of the taxation system and grants in short-term economic stabilization and long-term economic development need re-examination.

With federal tax reform proposals pending, we recommend that the standing committee review the relative merits of taxation and grants as instruments of economic and fiscal policy.

In addition, we believe that tax reform should simplify the tax system. In so far as possible, it should be revenue-neutral; that is, not raise additional revenues, and not impair the ability of the corporate sector to compete and make any adjustments required to meet the challenges of new trading arrangements.

It is vitally important that the standing committee take account of the total debt burden on Ontario taxpayers in examining fiscal options and recommending budgeting policy to the Treasurer (Mr. Nixon). Persistent budget deficits continually add to the public debt.

The table on slide 22 illustrates the level of debt on Canadian and Ontario taxpayers, including the Ontario Hydro debt which the province guarantees. The burden on Ontario taxpayers of only Ontario debt is 30 per cent of gross provincial product. However, Ontario taxpayers must also underwrite a considerable portion of the $204-billion federal debt.

To illustrate, the Ontario economy currently produces approximately 39 per cent of the total output of the Canadian economy. If 39 per cent of the federal debt is added to the Ontario public sector debt, as this graph illustrates, the total debt burden on Ontario taxpayers is equivalent to about 74 per cent of the gross provincial domestic product.

Mr. Foulds: You are pairing an accumulated debt with an annual thing, are you not?

Mr. Anderson: It is accumulated debt on both.

Mr. Foulds: How can you have an accumulated gross provincial product?

Mr. Anderson: Pardon me. Annual gross provincial product; I thought you were talking about that. The annual gross provincial product is 74 per cent.

Mr. Foulds: If you wanted to pay it off all in one year, that is what it would cost us, out of the gross provincial product.

Mr. Anderson: That is right. If we excluded the Ontario Hydro debt, the number still would be 61 per cent. In our view--

Mr. Chairman: Where are you getting your figures? We are getting different figures from almost every witness as to what the debt is, and we also have conflicting figures from other sources.

Mr. Anderson: This information is included in our written submission and is included in the Treasurer's submission to the committee.

Mr. Ashe: I wish your federal debt figure was right, because it is quite a bit low. Unfortunately, it is up to about $260 billion, but anyway, that is big enough.

Mr. Anderson: The figure of $204 billion was fiscal 1986, so it is probably out of date, I agree.

Mr. Ashe: As of going into this year, it is $260 billion, unfortunately.

Mr. Foulds: Those Tories cannot manage the economy at all.

Mr. Ashe: That is what they took over, for sure. There is crap in and it takes a while to get the crap out.

Mr. Chairman: I am looking at page 63 of the review that was given to us by the Treasurer. It says, "The province's estimated funded debt at March 31, 1987, will be $28 billion of which about 90 per cent will be owed to the Canada pension plan and teachers' superannuation fund." At the bottom of the page, it says, "Ontario's own-purpose total debt will be about $35.4 billion by the end of fiscal 1986-87...." That would include Ontario Hydro.

Mr. Anderson: Yes.

Mr. Chairman: I have another document here from the budget of last May suggesting--mind you, this is the first time I have seen it this low--that the Hydro debt is $8 billion. The figure of $23 billion is certainly the one I have been using, but I am confused.

Mr. Anderson: At the top of page 64, the Ontario Hydro debt is listed as $23.3 billion.

Mr. Chairman: All right. I accept that, because that is the figure that I have seen many times before.

Mr. Anderson: The provincial debt is the $26.7 billion, provincial purpose, and $4.2 billion, nonprovincial sector, if I can call it that from that graph. So those numbers totalling $54 billion are from that graph at the top of page 64.

Mr. Chairman: All right. So you are giving us our own figures.

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Mr. Anderson: Basically what this leads to is we believe that the committee should recommend to the Treasurer a specific path of deficit reduction.

The third major topic area of our submission is that of energy. Ontario makes extensive use of energy. In 1985 the province's total energy bill amounted to $14 billion, approximately 10 per cent of the gross provincial product. Ontario consumes about one third of all the energy used in Canada.

One quarter of the province's demand for energy is met from Ontario's own resources, leaving about three quarters to be imported. Fortunately, most energy imports come from other provinces, principally Alberta. Thus, external developments in energy markets are of considerable concern to the province.

Natural gas ranks with petroleum as Ontario's most important source of energy. The province uses nearly three times as much natural gas now as it did in 1965.

In terms of final energy demand, this graph shows that in 1985 natural gas supplied one third of Ontario's total demand, virtually the same portion as petroleum products. Electricity, as you can see, provided 19 per cent, and coal nine per cent.

This graph shows that industry is the largest user of natural gas in Ontario, accounting for 40 per cent of the total gas used. Residential and commercial use represents 29 per cent and 26 per cent respectively.

Natural gas is important not only for fuel, but also as a feedstock, and is used to manufacture a great number of products, including fertilizer, plastics, synthetic rubber and vinyl.

The importance of a natural gas supply to various markets is shown here. In terms of final demand, in 1985 natural gas supplied 57 per cent of commercial energy demand, 53 per cent of residential demand, 39 per cent of industrial demand, 18 per cent of agricultural demand and five per cent of transportation demand.

Transportation demand currently consists mainly of compressor fuel used in pipeline transportation. However, natural gas is enjoying growing acceptance as a vehicle fuel. As vehicles convert to natural gas, Canada's reliance on imported oil is reduced. Ontario's initiatives, which include no motor fuel tax and sales tax rebates on vehicles converted to natural gas, are largely responsible for assisting in the acceptance of natural gas a vehicle fuel. We commend your efforts in this regard.

As this table shows, Ontario's four major natural gas distribution and transmission companies--that is Consumers, Union and ICG, including TransCanada's Ontario operation--alone have directly created over 7,400 jobs from which there are substantial spinoff benefits. Assets invested in the province total $6.1 billion. Operating revenues total $6.3 billion. Incomes paid to workers amount to $255 million, on which substantial income taxes are paid. In addition, the companies remit corporate sales and property taxes. In 1985, taxes paid in Ontario totalled more than $142 million. In many communities, the utilities are the most important local taxpayers.

The Ontario natural gas industry is important to the province in a number of ways. As I said, it is a supplier of essential fuel, feedstock, equipment and services for home, office, institutions and industry. It is becoming more important in transportation.

Second, through bulk purchasing under long-term contracts, it is able to obtain secure supplies on behalf of Ontario consumers.

Third, through its direct impact on employment, incomes and taxes and its indirect impact on the manufacturing and service industries, it is also an important generator of economic activity. The industry is also a source of innovation and ideas for more efficient and economic use of energy.

Natural gas is a key, low-cost fuel, which helps give Ontario a competitive edge..

All of this indicates to you that energy and natural gas play an important--in fact, vital--role in the economic life of the province, and will for some time to come.

As a result, the security of supply of energy, and in particular natural gas, to the province is vital. Unfortunately, with the current weakness in oil and gas markets, the security of supply issue is not a high-profile one with the public.

Our association is concerned with Ontario's security of supply because the situation could be quite different in a few years. Some of the reasons for our concern include the fact that producers, in an attempt to increase exports are trying to further reduce supply protection for Candian consumers; oil and gas reserves in the United States are declining, and increased requirements for imported gas are forecast; and lead times to bring additional secured energy supply on stream can be very long.

The November 1, 1986, deregulation package includes a review of the mandated surplus in natural gas, which threatens to remove an important measure of consumer protection. We believe that the surplus issue must be approached with extreme caution and that long-term energy security should not be sacrificed for short-term profit. Ontario could ill afford a disruption of future natural gas supply.

Moreover, the elimination of export price test which has assured Canadian consumers that they will not pay more through taxes than their counterparts in adjacent American cities, could negatively affect the costs and prices of some Ontario inudstries and impair our competitive position.

These issues of energy security and price are all of vital importance to Ontario. We recommend the government of Ontario play an active role in the National Energy Board surplus review process, to represent and protect the interests of all Ontario gas customers.

In our written submission, we suggest that Ontario should develop an energy strategy which would include some of the following elements.

Reliability and flexibility of long-term supply: Ontario should continue to access reliable supplies of energy. Energy exports should not be allowed to prejudice future domestic supplies at reasonable prices. Domestic natural gas should continue to have a major role in Ontario's economic future. Increased reliance on natural gas is a sensible economic choice.

In addition, the question of greater unencumbered access to market-priced supplies by Ontario distributors for all their customers should be addressed.

Lowest-cost energy mix based on true costs: Ontario should promote the lowest-cost energy mix which also provides reliability of supply. Cost calculations must take into account all costs, such as pollution control and waste disposal.

Fair competition: The natural gas and electric power industries should be equally regulated and taxed. Regulation should allow the natural gas utilities full room to compete.

Support for exploration and development: The province should encourage exploration and development in energy resources in Canada.

Encouragement of research, development and demonstration: RD and D in energy alternatives, such as natural gas as a vehicle fuel, technology and conservation mechanisms should be economic priorities. Technology transfers and adaption are vital. Recognition of increased RD and D expenditures in utilities' costs of service are needed.

Enhanced Ontario-Alberta relations: New approaches and attitudes towards Alberta-Ontario relations are required so that issues can be settled in a businesslike manner. Avenues should be explored to see if Ontario and Alberta can reach mutually beneficial arrangements which would smooth out some of the undesirable volatility in energy markets, thus supporting production and employment out west and manufacturing in Ontario. Your committee may have insights to offer the government on the political steps that might be taken.

Finally, our submission can be summarized under the three broad headings.

Under the economy, productivity. Declining labour force growth will require increased productivity if economic growth is to be maintained.

Technology is important. The emphasis already placed on it should be continued and in fact enhanced. Energy and natural gas in particular are worthy recipients of technology funds.

Trade: Ontario has much at stake in trade negotiations. Among them are Ontario's interests in secure access to Canadian oil and natural gas reserves, which must be protected.

Competition: The rules are changing. The distribution utilities need the rate and regulatory flexibility to compete against bypass. Clear policy direction from the government to the Ontario Energy Board on the implementation of market-responsive pricing is required.

Under the budget, tax reform. Tax reform proposals should simplify the system, not raise additional revenues and not impair our ability to compete.

Deficits: The committee should recommend a specific path of deficit reduction.

Under energy, we demonstrated the importance of energy and natural gas in particular to Ontario. Security of supply is vital to Ontario. The government should play an active role in the surplus review process.

Finally, an energy strategy: reliable, flexible, long-term supply; lowest-cost mix, based on true costs; fair competition; support exploration and development; encourage research and development; and enhance Ontario-Alberta relations.

That concludes our presentation this morning. Our panel will be happy to try to answer any questions you may have with respect to our submission. Thank you.

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Mr. Foulds: I have several questions. It is a very thorough and stimulating brief, a lot of which I agree with, some of which I have some questions about.

First, in terms of security of supply, where is the most likely next available supply for Ontario? Is it the Prairies? Is there active exploration going on there? Are there reasonable expectations of finding additional natural gas to serve the Canadian market on the Prairies, in Alberta, say?

Mr. Callow: There are a lot of gas reserves that are proven in the western prairie provinces, in Saskatchewan, Alberta and British Columbia, but mainly in Alberta.

Mr. Foulds: There are proven reserves?

Mr. Callow: Proven reserves. However, exploration has been minimal over the last number of years, and it is a reflection of the price that producers are getting. If the price to the producers goes up, I believe that they will start exploring again and that there are reserves out there which will undoubtedly come on stream, as in the fairly significant discovery in the past month in Alberta.

But, when one takes the natural gas reserves in perspective, in terms of what the North American grid, if you like, could use, our reserves, in comparison to what the United States uses, is, on the early basis, minuscule. We are currently supplying somewhere around five per cent of the United States energy supply in terms of natural gas. If that figure were to go up substantially as a result of their supply situation turning around, then our reserves would plummet accordingly.

To answer your question with respect to exploration, there is more to be discovered in Alberta, and then I think we have to move further north, up into the Arctic islands and the Beaufort Sea area, in terms of bringing more supplies to the south.

Mr. Foulds: Those are the logical areas for further possible reserves?

Mr. Callow: That is correct. But with respect to the new climate, you can expect that there will be more gas sold from Canada into the United States. I think it is also a fair statement to make that the United States supply picture, relative to natural gas, has not improved over the last number of years, although it has had a surplus situation.

Mr. Foulds: I have forgotten the exact figures, but I noticed the cost ratio between bringing gas on stream for production in Canada--or was it exploration?--is something like $5 to $13. It costs, $13 per unit, whatever the unit is in the United States, and $5 in Canada. We have an advantage there.

Mr. Callow: We have an advantage at the current time, yes.

Mr. Foulds: I have a couple of other questions, and I have not been able to determine this. Do you know how much corporate income tax the natural gas industry in Ontario pays? I have figures about the accumulated taxes, and you gave us a figure of $142 million. I have figures that have to do with income capital tax and premium tax for other industries, but I do not have anything for energy, corporate income tax.

Mr. Callow: I am not sure if my colleagues can help me on that.

Mr. Anderson: That number of $142 million includes property taxes.

Mr. Foulds: Right. Would it include the taxes that your employees pay?

Mr. Anderson: No. That would simply be what the corporation remitted.

Mr. Foulds: In various kinds of--

Mr. Anderson: Specifically in 1985.

Mr. Foulds: You want tax reform to be revenue-neutral. You want us to reduce the deficit. That indicates to me that you do not want to raise any taxes. How do we provide any additional services that the people of the province might want?

Mr. Anderson: It is a very difficult question, as we well know. The obvious suggestion is to reprioritize expenses. If you are going to have additional services provided and control the deficit, other than through economic growth and so forth, then I think you have to start looking at where you are spending your money and where you should be spending it.

Mr. Foulds: The top rate for a single parent with two children in a community receiving family benefits in this province is the miserly sum of $8,500. A single parent with two children, whether male or female, has to meet all of his or her budgetary needs on $8,500. I do not think anybody in this

room could do that. Would that be an area where the government should put an increased priority?

Mr. Taylor: In what direction?

Mr. Foulds: Increase it. Raise it by a couple of grand.

Mr. Taylor: It would not make any difference.

Mr. Ashe: Give them free gas.

Mr. Ramsay: Would not make any difference to whom? It would to the people.

Mr. Chairman: The question is to the witnesses. The question has to do, and I think it is a fair question--

Mr. Foulds: It has to do with priorities.

Mr. Chairman: It has to do with the question of priorities and whether the association wishes--perhaps you will decline to--to make any comment on the perceived lack of money for certain people under the social security system.

Mr. Callow: This is a very difficult question for us to answer. Certainly, it is part of the social engineering that must go on in every society. The thrust of our discussion has been to indicate that we have to get control of the deficit in one manner or another. I do not think we want to pinpoint or say it should be one thing or another. I believe it is of concern to us all and that if we keep on spending with the patterns we currently have, we can be in very difficult trouble in the years ahead.

What we suggest is that there be a formula or some targets established and then the priorities have to be re-established within those targets, not so much that we are going to indicate that one particular group should get something or one particular group should get less. There has to be some determination by the government that we will reduce the deficit and by how much. Then that reprioritization will occur. Certainly, I do not think I could give any recommendations with respect to your comments.

Mr. Foulds: I have been the Treasury critic for our party for four years. This is not an easy question to understand. What I find difficult to accept is--there will be legitimate demands for additional programs. I think there is some legitimate demand from the business community and others that there be some control of the deficit. I do not have any problem with that. But to do that without raising taxes and simply reprioritizing programs, I do not think is a realistic objective or goal for a provincial government. There has to be some modest increase in taxation in some way.

One of the figures I worked on a couple of years ago was that we could halve a provincial deficit by hauling in the deferred corporate taxes, but we would get screams of outrage from the corporate world if we did that overnight. There might be a way of targeting how you could do that or reduce that. I suppose this is a long way of asking you, but would you consider the eventual elimination of tax deferral as a revenue-neutral step?

Mr. Aiken: The tax deferral arises really as an accounting exercise that just takes advantage of deductions to taxpayers enshrined in the

legislation. Basically, the people who record it, of course, are corporations because you do not keep a personal set of books, I assume, where you would record deferrals--

Mr. Foulds: Yes, as a matter of fact, I do.

Mr. Aiken: Oh, do you?

Mr. Haggerty: You pay taxes every year though, do you not?

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Mr. Foulds: I could never defer my tax. I cannot say to the Ministry of Health, "I want to pay my Ontario health insurance plan premiums next year, because I have bought a house."

Mr. Aiken: But the corporations pay. They pay the tax bill that is required each year. They pay what is requested and what is required in the legislation. The deferral is really an accounting exercise to balance reported net income. It is not the cash flow to the Treasury.

Mr. Foulds: But it could be cash flow to the Treasury.

Mr. Aiken: That would be a reorganization of the priorities you spoke about before. It would be an increase in tax rates to certain taxpayers to accommodate increased demands for service.

Mr. Foulds: It would not be an increase in rates. It would be an increase in the rate of collection.

Mr. Aiken: It would be an increase in the absolute rate paid because you would be removing deductions.

Mr. Foulds: What you would be doing, though, is broadening the base. That is the point. Of course, that was one of the things you agreed with in your submission, that it would be important to broaden the base. You cannot do that holus-bolus, but it would be one possibility for the Treasury to look at.

Mr. Partington: I have a supplementary on source of energy. You talked about western supply, but I notice gas drilling is done in Lake Erie and southwestern Ontario. Has full exploration been done in Ontario, including, for example, the Hudson Bay lowlands? Is there any possibility of fossil fuels being somewhere in Ontario that you have not had a good look at?

Mr. Ashe: The rights for Hudson Bay are for sale cheap.

Mr. Foulds: Was it not your government that sent Malcolm Rowan and the Ontario Energy Corp. to look at that?

Mr. Aiken: Consumers' Gas did not find anything in the bay either. Two years ago, we spent the sum of $16 million as our share of two wells up there. The geologists tell us it is a very encouraging hydrocarbon area and that there may be something there. Two wells in the area of Hudson Bay are only a pinprick in the blanket. We are currently exploring a number of very encouraging areas in southwestern Ontario. Consumers' Gas currently produces four to five per cent of our annual requirements out of Lake Erie. Relatively speaking, there is a lot of exploration. It is certainly not the Alberta

style, but for what is available in Ontario, there is a considerable amount of exploration.

<u>Mr. Foulds</u>: Did you say new areas, virgin areas, in southwestern Ontario?

<u>Mr. Aiken</u>: No, I am sorry. If I did, I misspoke myself, because I certainly should not say it is virgin.

<u>Mr. Chairman</u>: They are old areas that you are re-examining.

<u>Mr. Aiken</u>: That is correct.

<u>Mr. Chairman</u>: I have Mr. McFadden next. Before that, perhaps I should inform Professor Mortimer that we are running a little late right now. This delegation started at about 10:50 a.m. In view of that, first, is it possible for you to come back at two o'clock as opposed to running through the lunch hour? Second, do committee members prefer Professor Mortimer to start at about 11:45 and run through until 12:30 or would they rather we start at two and push back the Conference Board of Canada?

<u>Mr. Ashe</u>: Being fair to our witness, we have to see what his schedule is and accommodate him accordingly.

<u>Mr. Foulds</u>: Why do we not sit through?

<u>Dr. Mortimer</u>: I can do either, sir.

<u>Mr. Chairman</u>: Mr. Barlow asked me to remind members of the committee that Riley-Meggs Industries Inc. is here at 1:15 p.m. in the Progressive Conservative caucus room to discuss Megg-net hockey goal systems. In its quest to promote safety in sports, the Ministry of Tourism and Recreation has agreed to finance 50 per cent of the cost of Megg-net hockey goal systems and we are invited at 1:15. Would that change anybody's view? No, fine.

<u>Mr. Ashe</u>: That is only a half-hour thing that is through at two o'clock.

<u>Mr. Chairman</u>: We will continue with the presentation and hear Professor Mortimer at approximately 11:45.

<u>Mr. McFadden</u>: I have two areas. One relates to supplies. I find this whole area of reserves to be a very mysterious business. Books and countless articles have been written on it. There has been a tremendous amount of speculation.

<u>Mr. Taylor</u>: What do you mean by "reserves"?

<u>Mr. McFadden</u>: That is what we are trying to get at. I hear about security of supply and reserves and where they all are. From stuff I have read, I have been led to believe that Canada has a tremendous--

<u>Mr. Haggerty</u>: Enormous.

<u>Mr. McFadden</u>: --you call a lot of things enormous--reserves of natural gas, both currently explored in fields that are in production and also looking off the Altantic coast and in the Arctic. We are told we are awash in gas. That is the common, public perception, that we have gas that will last

for hundreds of years. I do not want to misquote what you are saying; I am trying to get at the thrust of your brief. You are indicating that in fact that image is somewhat in error, that we do not seem to have an abundance of resources or reserves in this area and that we should be very wary about exporting to the United States because our reserves could dry up pretty fast.

I am trying to get at what the thrust is. Are you saying we do not have the kind of reserves we are led to believe we have? Are you saying the reserves that are now proved and in production are finite, but you cannot quantify very easily the shelf off the Atlantic and Arctic oceans? I am trying to get a handle on exactly what you mean by this whole question of supply problems, conservation and exploration.

Mr. Callow: It is a difficult question. There is a perception by the public that we are awash in a sea of natural gas because we talk about it and we often turn up the flame in the Arctic and show it. You see that every once in a while and you hear about the big strikes off the east coast. So one gets that perception.

What we were trying to say is that relative to Canadian needs, certainly we have an abundance of natural gas. What I also alluded to earlier, and in our comments, is that there is very little exploration going on at the current time. That really is a result of the price of natural gas. The producer has more gas than he can sell at the present time and the costs of bringing it on are too high when you do not have a market. I believe there is a lot more gas to be discovered in the traditional sedimentary base in Alberta. It is strictly a question of price in markets that will bring it out.

What we were trying to alert the government of Ontario to is the fact that when one compares what we have in terms of our supplies, which are more than adequate for our needs, with what the United States uses and will need in the future, our supply is not great when you look at the total energy picture. If you are considering that we can bring this gas from the east coast or we can bring it from the Arctic, yes, that can be done, but it is going to be very expensive gas. It will not be cheap gas that will be coming from those areas. It will be very expensive.

When the National Energy Board is looking at the picture of the surplus situation, what is surplus and reasonable for meeting the needs of the foreseeable future, it is making an assessment of that supply scenario. I think this new National Energy Board assessment that is going on currently has some far-reaching ramifications for Ontario. If the supply picture becomes fairly tight in the traditional sedimentary basin area because of major sales to the United States, that means the price will go up in Ontario. It is a very complicated issue. I think the gas is there, at a price. It is a question of how much you are going to pay to find it and how much you are going to pay to build the pipelines to bring it to the marketplace.

Currently, I agree with your perception, because what the public is seeing is deregulation, lots of gas and lower prices. What we in the industry are trying to look at is into the future a bit to see what is going to happen when that supply-demand picture turns around. It can turn around very quickly, as these energy pictures do, as we have seen over the past 10, 15 or 20 years. We have seen the pendulum go back and forth a few times, so it is a very complicated issue.

We are just trying to alert you to the fact that we should be making sure that the needs of Ontario manufacturers and residential consumers are

taken care of, not just taken care of in terms of security of supply; we want some modicum of thought to go to the pricing of that commodity as well. We do have a competitive edge that allows our industries to compete very favourably with their industrial counterparts in the United States. We want to maintain that edge. If we lose it, then it will be much more difficult for industries to be attracted to and maintained in Ontario.

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Mr. Taylor: How do you equate that with better relations with the west?

Mr. Callow: I think it is in the interests of Alberta and Ontario to have good relationships because we are a major consumer of gas and Alberta is a major supplier and has been for a number of years. It seems to me that if there is a supply-and-demand situation there, Alberta would like to sell its surplus gas to the United States. What we are trying to do is to squeeze down the amount that is needed for Canadian foreseeable requirements and export the rest to the United States, if we can. I am just saying, let us look at the overall picture in the long range, and it should be complementary because we need a healthy, producing sector. We need those people out there. We need them to discover gas for us and we need that high-risk sector that is going on out there. I think it is synergistic; we need each other. We should be able to work out complementary arrangements.

Mr. Foulds: One of the things that struck me was that, obviously, Alberta would like to sell more coal to Ontario Hydro. Although it is more expensive, there might be some deals that could be worked out with unit trains and that kind of thing to bring the cost down. Would that be the kind of thing Ontario should perhaps take a little more positive attitude towards than it has in the past in terms of encouraging this good relationship between the two provinces?

Mr. Callow: In matters of trade where Alberta has some interests as well as natural gas, Alberta has been having a problem with agriculture, natural gas, fertilizer and the rest of it. It has had a couple of very difficult years and perceives us in Ontario as having some very good years. I can tell you it is not like that all over Ontario.

Mr. Foulds: I come from the north and I know exactly whereof you speak.

Mr. Callow: That is right. In any event, I think all those issues have to be put on the table because they are important to Alberta and it is in Ontario's interest to have a healthy Alberta. I do not think you can take some of those issues off the table. I think they have to be put on the table and looked at. I am not privy to those kinds of deals--I work in the gas business--but I am making some very simplistic overview comments with respect to the fact that we need a healthy Alberta economy. We need a healthy producing sector. It is good business for us.

Mr. McFadden: Can I ask one follow-up question? I guess what you are trying to propose to us is that we recommend to the Treasurer, at least, that discussions take place--was it with Alberta and Saskatchewan, or is it just with Alberta in this case?

Mr. Callow: It is mainly Alberta, but certainly the three provinces have gas reserves. British Columbia and Alberta are the prime exporters of gas.

Mr. McFadden: Given the difficult situation Alberta finds itself in financially, we would have to be offering them something financially, through industry or government or something, to discourage them from wanting to export more than they are now. I do not know if you have any suggestions on that, but it would seem to me that we would have to do something to help alleviate their current problems in a tangible way before they are likely to agree to look 10 years from now. They are facing 15 per cent or 20 per cent unemployment and tremendous budget shortfalls.

I am sympathetic to what you are saying because I have felt for quite some time that Ontario and Alberta very much have a symbiotic relationship in a lot of ways. We are a big domestic comsumer and Alberta is a big supplier in terms of drilling products, gas and so on. They are in such tough condition today, they are looking for immediate relief. I just do not know how we are going to give them a lot of relief, financially, that would offset their desire to try to sell more, at least, in the United States. You know more about it than I do. I am just raising this question.

Mr. Callow: It is important to know that under the current licence export permits that producers have today, they are only selling up to 50 per cent of that now and have for the last several years. It has been 45 to 55 per cent of the licence exports. That is the gas that has been approved, that is surplus to Canadian needs. So they could sell twice as much, if you like, without having--

Interjection: At what price?

Mr. Callow: That is a good question--at what price? Certainly our industries in Ontario would like to think--and our customers in Ontario, residential, as well--that we would be able to buy gas as cheaply as our American counterparts, particularly if it is Canadian gas.

Mr. Haggerty: Are you not doing that now through the pipeline from Huron? Are you not purchasing American gas cheaper than what you are getting off the Interprovincial or the pipeline?

Mr. Callow: I would let my counterpart from Union Gas who is buying that gas answer that question.

Mr. Haggerty: He is buying it cheaper, is he?

Mr. Anderson: At spot prices, yes. In some instances we can buy it cheaper from Huron.

Mr. Haggerty: Than what you can from the pipeline?

Mr. Anderson: In some instances, yes. Not universally. It is a spot market for gas.

Mr. Chairman: Mr. Ashe has a supplementary.

Mr. Ashe: Just a brief comment first on the business of Alberta versus Ontario. I think, unfortunately, and I know they would probably say the same thing, if there was animosity between the two provinces, I think they started it when they said, "Let those eastern bastards freeze in the dark," kind of thing.

Interjection: Oh, come on.

Mr. Ashe: It takes a while to get over that kind of attitude. That really was not my point.

Mr. Foulds:--(inaudible) producers or even Premier Lougheed actually saying ??--

Interjection: That is right.

Mr. Chairman: Those days are gone.

Mr. Ashe: What is your answer to the cynics, some within the industry, mostly outside the industry, who say the only time there is an energy crisis in Canada is when the suppliers, not the distributors--because your rate of return is controlled--want to raise the price of the product. If you look back over the last number of decades, that has been extremely true. We were told we were running out of gas even before we were told we were going to run out of oil. As you have just identified, we have gas coming out our ears, albeit, at various prices. I acknowledge that. Of course, we have gone through this scenario about twice in the last dozen or so years on petroleum products directly.

What is your answer to that? Keeping in mind who owns most of the producing aspect of it, who owns the research, at least the discovering of the wells and bringing them on, whether they be oil or whether they be gas. They seem to keep finding more gas when they are looking for oil. I understand that too.

Mr. Callow: I think we are entering into a new era in terms of natural gas. In my experience, which has been some 23 or 24 years in the business, it is something we have never seen before; it is called market responsive pricing. As we are going through this, as this deregulated environment is unfolding before us, we are getting more and more to price sensitive pricing for the commodity. So the old traditional values--that is what is driving the price down to the producers now, is the fact that we are into a market responsive pricing regime.

As I was talking to your friend, there is a flip side to that. It means that when the supply tightens up, as well as being prepared to take the price advantages when it is oversupplied, you have to be prepared to take the price increases when they come along. It will be on the basis of a market responsive pricing regime that we have today. So it is a changed world relative to the natural gas business.

What we are saying as an industry is that as we look ahead, we have to make sure that we have those secure supplies for our customers in the future, but the price will go either way. I think that is what Albertans are saying. If you are prepared to take the dollar per thousand cubic feet off today, be prepared in the future that the price will fluctuate. We are saying, let us make sure that we have gas for our industries and our residential customers in the future.

Mr. Ashe: That is a new position for Alberta because back not that many years ago, when the price was in its favour, and discussions took place, albeit informally, about us saying, "Fine, you protect us with an upper limit, if we are prepared to protect you on the lower limit," it was not prepared to go that route at that time. In other words, the impressions then were only

upside; it was not worried about that downside protection. Of course, the wheel turned.

Mr. Chairman: I have one last quick question from Mr. Haggerty.

Mr. Haggerty: Yes, I wanted to direct a question about the matter on the second page with regard to recommendation 7. It says, "That the committee investigate the economic, revenue and other implications of regulating and taxing Ontario Hydro on the same basis as private utilities."

Mr. Chairman: I think Mr. Haggerty is reading from a summary of your brief that was made available.

Mr. Haggerty: That was one of the recommendations. It continues: "The Ontario natural gas industry pays $140 million in taxes. That energy resources indigenous to Ontario--increasingly nuclear-generated electricity--be made to compete on economic terms with natural gas." Could you enlighten the committee members perhaps a little bit further on that? You are suggesting that the people now pay taxes on Ontario Hydro. We are paying enough there now. I mean, we are $23 billion into debt, and you are asking the taxpayers to, what, assume more debt by paying the debt on the proposed revenue that it is making?

Mr. Aiken: I get only the nice, easy ones. The thrust was not to tax Hydro per se, or not to have the gas distribution utilities not taxed per se--although it would be nice if you wanted to consider it--but really that there are currently two things.

First, there is an unfair competition where the utilities do have to build into their rates the cost of income tax, and those rates have to compete with Ontario Hydro in a number of markets. We have to pay income tax, and it has to come from somewhere, either from the shareholder in a lower return or from the customer to keep the return at that found by the board.

We think that Ontario Hydro, by not being in that same position, gets an unfair competitive advantage that it can, by absenting other controls or other procedures, use to the detriment of the natural gas industry currently, and we think to the long-term detriment of the province. We think natural gas has a role to play in Ontario's future.

The second point is that Ontario Hydro at the moment is, even without that taxation contribution to the province, increasing the cost to all of Ontario in (a) not paying income taxes and (b) not setting and living up to what I would consider to be sound financial targets. We suggest that those financial targets, those costs in terms of debt reduction or contribution to the province or ensuring that there is not going to be some future burden, be assessed and recovered from current Hydro customers rather than being deferred--I think we looked at one of the slides--as some future cost in terms of repayment of debt or continuing to aggregate debt to Ontario taxpayers or Ontario citizens.

Mr. Haggerty: But when you look at the scale to balance it, Ontario Hydro provides a utility service to almost every Tom, Dick and Harry in the province, whereas Consumers' Gas or any of the gas utilities are selective in their choice of providing that source of energy to consumers.

I can relate to the Niagara region where you do not cover every municipality in that area, the outskirts or outlying areas.

Mr. Aiken: The reason for that is economics.

Mr. Haggerty: You are being selective though, are you not?

Mr. Aiken: We are saying that those who utilize the product should pay the full cost of that product. That has been the basis upon which utilities have operated and which utilities can provide service, the gas distribution utilities. We just think that Ontario Hydro should be in that same position, assessing all of the costs to serve the taxpayer, to serve the customers.

Mr. Haggerty: But they are over the whole province. As I said, your industry is perhaps a little selective. You will not move into a community unless you can see a dollar at the end of it, a profit at the end. We have people in here suggesting that.

Mr. Aiken: The current customers of the utility cannot subsidize a new community or new customers and that is contrary to what is happening with Hydro users. They are being subsidized by others to the extent that the natural gas industry pays income taxes which go to the province and the province subsidizes Ontario Hydro in that it does not pay back its current return. The natural gas customers are subsidizing the operations of Ontario Hydro.

Mr. Chairman: I do not want to stop this interesting debate.

Mr. Haggerty: I just want to come back to the fact that the standing committee should examine ways and means of raising Ontario's economic productivity. Is this not an area that your utility should be looking at, new areas to tap, new places to locate the services and encourage industry to locate in those places so you can perhaps outperform Ontario Hydro? The competition is there and you fellows have to fight for the market.

Mr. Callow: We, through the federal government's distribution system expansion program, expanded to a number of communities within Ontario which were hitherto uneconomical. To some extent that has been done.

Mr. Haggerty: But that increased the government deficit too, did it not?

Mr. Callow: No, that came out of the producer's pocket.

Mr. Chairman: I am going to have to cut the debate off. It is a very interesting point and we appreciate your submission gentlemen. Obviously you have raised a lot of questions in the minds of members of the committee and your submission will be considered in our report. Thank you very much for the time and trouble you have taken to come here.

Now, Professor Clive Mortimer, chairman of the department of ophthalmology at the University of Toronto is our next witness. He has presented us with a submission. Perhaps, Professor Mortimer, if you could take a seat. That submission has just now been distributed to members of the committee. Perhaps you can lead us through it. I see it has to do with health care funding. Having two huge hospitals in my riding that both feel that they do not have enough funding to do what they are required by law to do, I am very interested in what you have to say. Perhaps you can lead us through that.

DOCTOR CLIVE B. MORTIMER

Dr. Mortimer: I welcome this opportunity to present to you--and I am interested after hearing what went ahead of me, you are going from deregulation and financial sensitivity to just the reverse, multiple regulation and financial insensitivity.

I realize that most of the people who come to you have areas of special pleading, and I shall have to tell you that I am not immune to special pleading, but I want to persuade you to consider a philosophical question.

It is the cost of health care. It is becoming more expensive, and soon there will not be enough money in the system to pay for the health care that is being demanded. The basic question that you as a committee must face, and we as a society, is how much money, what proportion of our wealth are we prepared to spend on health care? Whatever number we pick, $10 billion a year, $12 billion a year, it will not be enough to satisfy the demands of our system. I want you to try and address the reasons why.

Most of you are probably not aware that Canada is unique in the world today in attempting to fund every aspect of health care from general revenue and taxation without consumer participation. When I say unique, I am not exaggerating. Even the Peoples Republic of China expects the patients in hospitals to pay for their lunches and laundry.

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Sweden, the country that we always set out as a model, has a completely separate system outside universal government insurance which people may choose if they wish.

The situation in Britain is known to you all. The National Health Service, which has been struggling for years, manages its load only because of the significant amount of work carried out by the private system. This parallel system in fact has become so efficient that in many cases patients are sent from the NHS to the private system because hip replacements can be done more cost-effectively.

We are unique in attempting to handle every health demand from general revenue. The core of the message I have for you is that if we choose to provide everything through our taxation system without any form of consumer participation, or without any external funding, we are doomed either to lower our standards or to restrict our services.

Let me just remind you first of the demands on the system, and then I will point out to you that restriction of service is already occurring. I am sure most of you have come to terms with a budget of $10 billion a year. Perhaps you think if it only went up by the amount of inflation, we could all live with $10 billion a year. I am sure we can.

Nevertheless, you have to realize that health costs do not increase by a measure of inflation; they increase by the measure of sophistication of the new procedures being introduced. Everyone knows about triple-artery bypass. Ten years ago it did not exist. Now it is the most commonly performed cardiac surgery in North America. Expensive? Of course it is. The advances of the last few years--heart/lung transplants, laser surgery for eyes, laser surgery for neurosurgery, lasers for ear, nose and throat--are all new modalities, all expensive and all require not only large capital costs but also intense hospital care.

I wonder how many of you saw the article in yesterday's Globe and Mail. The new drug Retrovir prolongs the life of acquired immune deficiency syndrome sufferers. It will cost $15,000 a year per patient. At the moment, that means it will only cost us $5 million a year. Should our incidence of AIDS rise to in proportion to that of the United States, it will cost us $25 million a year for one drug.

Our problem is that we are now able to help, treat and often cure patients who used to be untreatable. These are the demands on our resources. We have a demand-driven system. The demands are fuelled by increasing public awareness and increasing knowledge of procedures from television and newspaper, most of these emanating from the United States, the leader in curative health care. Each time a procedure is publicized, the demand is stimulated.

That is what I mean by a demand-driven system. I am not suggesting it is wrong. There is nothing wrong with the stimulus of seeing that new care is available and wishing to have it here in Ontario. There is nothing wrong with physicians and surgeons wanting to provide the services if they are available. But a demand-driven system must lead to ever-increasing pressure on our resources.

We want to see the best possible health care delivered to Ontario residents, but that cost will continue to rise, and not simply by a measure of inflation. What happens when we can no longer meet these demands? The answer is obvious. We will restrict health care. Any of you who read the newspapers know that already this is happening. I keep a scrapbook, and I drop into it cuttings from across the country about costs of health care.

I will just remind you of some of the headlines you have seen recently: "British Columbia Restricts Physician Billing Numbers;" "Quebec Caps Physicians' Income;" "Quebec Demands New Graduates Practise in Rural Areas;" "Sault Ste. Marie Hospital Restricts Number of Intraocular Implants that Can Be Performed;" "Newmarket Hospital Says Budget for Intraocular Lenses Expires Four Months Before Year-End."

There are dozens similar to these. These are not measures designed to improve patient care. None of you believes that those measures were introduced in the interest of the consumer or that they have anything to do with improving health care. They are about saving money, and they are stopgap methods of saving money. If we cannot reduce demand, we must reduce supply. What you have to consider is, how can we balance ever-increasing demands for service against stable or possibly net-reducing health budgets and still deliver first-class health care?

There are two approaches. First, the introduction of other money into the health care system. I am not here to advocate any particular method or philosophy. I should remind you that the Alberta government has already started to discuss coinsurance for noninsured services.

Where can we get additional money into the health system? Whether we call it private insurance, coinsurance, patient participation, user fees or whether we can find some politically acceptable name for it, we have to find new sources of funding to come into our system or the load is going to be intolerable and the system is going to crack.

I suppose there is another approach. Can we get any better value out of the existing system? I am sure we can. I suggest to you that we know a lot

about our system, about the providers of service and the work that is done. It is done mostly through our computers.

Many of you may not be aware of the Hospital Medical Records Institute statistics, an information-gathering system that collects and collates information from hospitals across the country. We can see the average length of stay and a whole variety of other statistics broken down by diagnosis. One can therefore compare the cost of a hip replacement, a cataract extraction or gall bladder surgery in Vancouver, Toronto and Halifax or between two Toronto hospitals. Let me tell you that the differences even between Toronto hospitals are notable and the changes from one part of the country to another enormous.

I think this suggests that some people utilize their resources more efficiently than others. Nevertheless, our funding system contains no incentive to use resources efficiently, no rewards for efficient users, and not only no penalties but also sometimes dollar bailouts for less well run organizations. As you are aware, the system of reward for medical practitioners is the same: no reward for excellence; no reward for seniority or special skills.

You should ask yourselves, as businessmen: How can a system flourish that offers hospitals no reward for productivity and its health care providers no reward for excellence?

I have one special digression from my philosophy to an area of special pleading that I warned you about. My own interest is teaching and research. One area of health-related funding that is completely inadequate, and I am afraid will soon lead to problems, is remuneration for medical teaching.

Many of you do not know how much teaching is done for nothing by the staff physicians at the universities around the province. At least $6 million a year of free work and free teaching is done by the part-time staff at the University of Toronto alone. One day, and I fear it is not far away, the goodwill that has enabled our faculty to run on unpaid or minimally paid part-timers will evaporate and our teaching and our medical school will suffer.

The second area also poorly funded is pure research. My particular area of interest is laser research. Compared with West Germany, the United States, Japan or France, our government contributions to medical research at a basic level are very disappointing. The chances that our experts will be able to afford the necessary hardware to be involved in leading medical laser research are minimal.

Research funding carries with it a multiplier effect. It has been calculated that $1 spent on health research usually multiplies into $10 worth of developed equipment and potential employment some years down the road. Rather small amounts of money spent on research may make a tremendous difference to our health care system in the future.

These two areas, teaching and research, require special consideration because they are investments in the future of our health care system. They will influence the future way in which we provide care.

Let me summarize my concerns for you. First, I do not want you to believe I am attacking a hard-working and effective Ministry of Health. The problem and the solution are political. The problem is doctrinal. We have

established a certain doctrine of health care, and it is you, our elected representatives, who must deal with this problem, not the bureaucrats.

As you all know, in Ontario we spend $10 billion a year on health care. We do it in a way that gives hospitals no reward for productivity, does not reward excellence or innovation in our doctors, and does not reward medical teaching or stimulate pure research. In addition, that system is consumer-oriented, demand-driven and open-ended as far as demand is concerned, but eventually constricted in our ability to fund it. How long do you think that system can survive if we insist on leaving it organized in that way?

Mr. Chairman: Well, you have thrown that one back in our hands.

Mr. Taylor: Excellent brief.

Mr. Ashe: Realistic.

Mr. Chairman: It is one of the best briefs we have heard.

Mr. McFadden: In China, the patients have to buy their own meals and pay for their laundry. I take it patients do not do their own laundry.

Dr. Mortimer: You see the patients out on the street, actually. They go from store to store buying their food in the street.

Mr. McFadden: Is that true?

Dr. Mortimer: The relatives usually either bring the meals in or take the laundry out and then do it at home.

Mr. Foulds: Can the relatives bring food in?

Dr. Mortimer: Yes, they can.

Mr. Foulds: Which they cannot do here.

Dr. Mortimer: No.

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Mr. McFadden: You mentioned Sweden. They have some kind of separate system. Could you elaborate a little on what they do in Sweden?

Dr. Mortimer: In Sweden, they have a similar arrangement to Britain where there are hospitals that are funded through private insurance companies. People are allowed to take out private insurance and, if they wish, attend a private hospital rather than the state hospital.

Mr. McFadden: They have that option. Would that be a benefit, for example, that companies might provide to their employees?

Dr. Mortimer: It is exactly that way. It is usually negotiated as a benefit, in much the same way that BUPA as it is called, British United Provident Association, is negotiated as a benefit.

Mr. McFadden: Am I to understand that the Swedish government has used this as a way to control the cost of its national health system?

Dr. Mortimer: I think theirs, rather like the British system, just happened. I do not think it was set up at a later stage as an attempt to control costs. I think it evolved that way.

Mr. McFadden: One area we seem to have used to control some of our cost has been the remarkable situation with faculty at the university, which you have touched on. A couple of friends of mine teach at the University of Toronto medical school and I was amazed at how little they make for a large teaching load. My recollection is, and correct me if I am wrong, that it is something like $500 or $1,000 a year.

Dr. Mortimer: That is correct. The usual reimbursement for a faculty teacher, a part-timer, is between $500 and $1,000 a year. I have 62 people in my department, whom I fund with $65,000. From them, I require a minimum of one day a week of their time all year.

Mr. McFadden: It is a day a week and they get paid $500 or $1,000.

Dr. Mortimer: That is correct.

Mr. Foulds: It is probably about the same rate we get for sitting on a committee.

Mr. Ashe: Except they have some knowledge.

Mr. Foulds: Speak for yourself.

Mr. Ashe: I was thinking of you, actually.

Mr. Chairman: Mr. McFadden has the floor.

Mr. McFadden: There are 62 part-time faculty members. What is happening at the U of T and at medical schools across Ontario is that they are staffed substantially by part-time people who are specialists from the hospitals. They are paid an honorarium of $500 or $1,000 a year and they are teaching one a day week, on average.

Mr. Chairman: I see. These are practitioners.

Mr. McFadden: Yes. As I understand it, what has effectively happened is that the medical profession, as a system, has been able to make that as a contribution to the area of health care by essentially working for almost nothing.

Mr. Chairman: You have 65 doctors under you performing that service.

Dr. Mortimer: My staff is 67 doctors, of whom 62 are part-time. I pay those 62 with $65,000.

Mr. Ashe: Have you had any change in their responsiveness since a certain piece of legislation?

Dr. Mortimer: Yes, I have. I do not have any carrots. That is my problem; there are no carrots. I do have a stick in that I can make it difficult for them to admit patients to hospital, but that is no way to get co-operation from people.

Mr. McFadden: That just hurts the patients.

Dr. Mortimer: Yes, that is right. I do not have any carrots to offer.

Mr. McFadden: One of the other points you made was about research and development. A couple of witnesses ago, Bell Canada talked to us about research and development. The Ontario Natural Gas Association spoke about research and development. You have come at it from a different point of view. One thing that struck me was that if we keep going the way we are in the area of medical research, presumably that would make our health care system totally vulnerable to developments outside the country; for example, the pace at which they are prepared to share with us their information, their equipment, their knowledge or whatever it might be.

As well, presumably it would effectively make it very difficult for us to develop industry past what we now have done in the area of medical equipment and products of all types. We would not have the brain base in Canada to go very far in that area. Given the fact that health care is such a huge part of government expenditure, I think the logic of what you are suggesting is that we are going to wind up spending a lot of that on foreign-made product coming in here because we will not be able to develop it in Canada with what we are now spending. Would that be a fair summary?

Dr. Mortimer: Yes, that is a fair summary. This is a real problem. Because we cannot do the basic research, we always end up buying the finished product from somebody else. That is an expensive way of doing it. We do have expertise. John Polanyi won a Nobel prize in lasers right here in Toronto. We have the best possible expertise. The problem of trying to get, say, $250,000 to get basic equipment going in this is almost insuperable.

One understands that research funding goes to the established scientists, but some time ago I made a private approach to the Ministry of Health and applied for one of its research grants over a particular opportunity with a particular laser. We have the opportunity to be among the first in the world. It is so frustrating to see the time slipping by. Perhaps I should go to the natural gas people or Bell Canada and say, "Come on, you guys and give me some research and development money," and try to run it as a business. But most doctors are not trained well enough as businessmen to be able to structure a deal of that sort. Maybe we are wrong. Maybe we are as much at fault in that we look to government. Maybe we should be looking to business as well. Maybe that is another side to this coin.

Mr. Chairman: Mind you, when you do have a breakthrough, the same ministry you are looking to for funding is of course constantly having to deal with hospitals all over the province that want it.

Dr. Mortimer: Yes.

Mr. Chairman: It is incredible. It is in their interest to cut off all R and D. However, I am being facetious.

Mr. McFadden: They could buy it all from the United States because the consumer--

Mr. Chairman: That makes it worse.

Mr. McFadden: --wants to buy the computerized axial tomography scan because you are not going to accept second-class health care.

Mr. Foulds: I have a couple of concerns about the paper. One is that you do not appear anywhere, unless I missed it, to indicate that one of the ways we might reduce health care is by preventive medicine. You seem to be talking solely about curative medicine in the paper. Is that a fair judgement?

Dr. Mortimer: That is absolutely fair. You have picked up the word. I said the United States was the leader in curative health care.

Mr. Foulds: Right.

Dr. Mortimer: Curative health care is where the expense is.

Mr. Foulds: Right.

Dr. Mortimer: Let me say that I am somewhat cynical about preventive medicine making a significant dent in health care costs in your lifetime or mine. I am just old enough to remember Aneurin Bevan making speeches in 1948 when the British health service was introduced and I was an idyllic medical student. He was telling us that within our lifetime patterns of disease would change and the world would become a cleaner and nicer place. I am concerned that preventive medicine does do very good things, like reducing lung cancer and wiping out smallpox, but I think the easy things have been done. I do not want to knock preventive medicine, but I do not see it as a really important thing in reducing overall costs.

Mr. Foulds: Let me give you an example. I used this example when the nurses were before us. My mother is 83 years old. Just before Christmas, she was found in an apartment. She had an allergic reaction to a prescriptive drug. She was basically paralysed. If the doctor had made house calls and come up and confirmed the diagnosis of the nurse in that senior citizens' apartment building, he would have been able to save a lot of money; i.e., the diagnosis would have been confirmed by a qualified medical practitioner. He could have had a home health nurse in there and the woman, who was 83, would have been more comfortable in her own surroundings. Instead, the ambulance had to be phoned. There is a cost there; two ambulance attendants. She went to the emergency wing of the hospital, which was what the doctor recommended. That is a fairly expensive area of the hospital and she had to say there overnight, for 24 hours. I do not know what the total cost of that would be, but I think it would be about $1,000 at least.

Dr. Mortimer: Yes.

Mr. Foulds: I thought that if the medical practitioner could have come, there could have been the diagnosis and a health care worker, a qualified registered nurse or someone such as that for 24 hours or the period it took to work the drug through. It would have cost about $250 at most. There are substantial savings in methodology that could be taken even within what would be called the curative health care system.

Dr. Mortimer: Absolutely. I agree with you entirely. There is no question that there are all sorts of opportunities like this. The difficulty is that maybe there are no incentives built into the system for the providers to want to save money.

Mr. Foulds: How do you do that then?

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Dr. Mortimer: Let me tell you what is going on at my own hospital. We have a particularly energetic chief executive officer who has said to various departments: "I will make you budget manager of your department. You have X million dollars to run that department. When you have run out of money, you cannot admit any more patients to the hospital. If you make a profit in this organization, then you may keep a proportion of that money as money to pay capital costs with in another year."

What that does is to give me a very, very serious incentive to make certain that my bed stays are short, that the hospitals are well used, that the supplies we use are bought at the most competitive price and so on. We have been involved, through the initiative of a very good CEO, in giving thought to how we can save money. The incentive for me, as a department head, is that I want all the new equipment I can get for my department. If I save money in one way, I get money to spend on equipment. So there is an incentive in it for me.

Mr. Foulds: That worries me too. I understand the circumstances in which you are working, but I sometimes wonder whether the amount of money, however it is sourced--terrible phrasing; terrible word--for research goes into research for equipment, for drugs and all of that stuff that results in a product that can be sold, for research into what causes cancers rather than a cure for cancer. Why does the research not go into the environmental causes of a lot of our illnesses? For example, we know that high-fibre diets lessen the number of colon cancers.

Mr. McFadden: Shredded wheat every morning.

Mr. Foulds: Not shredded wheat because all the fibre has been edited out of it.

Is there a way you can suggest that the incentive could be there for my hobby-horse, which is for things that would not cost money in terms of a product, would not create a profit in terms of a product, but hit preventive health care?

Dr. Mortimer: I think there are ways. You would have to set up models for each particular area but I see no reason why there should not be some form of budgeting that allows people flexibility in terms of how they deliver health care.

Mr. Foulds: Including hospitals.

Dr. Mortimer: Yes, including hospitals. If it is cheaper to do the operation without admitting the patient and just as safe, there should be an advantage to the hospital to do it that way. To give you an example, my particular area is cataract extraction. One hospital in Toronto does 70 per cent of its patients as outpatients and one hospital does the whole lot as inpatients. That is a very substantial difference. The answer is there is no incentive to save that money. Somehow, we have to get people interested in the thought that it is their money they are spending.

Mr. Foulds: I am flabbergasted.

Dr. Mortimer: I can give you dozens of examples like that. I picked one from own speciality because I know it very well.

Mr. Foulds: When you say there is no incentive, there is no incentive to the hospital, there is no incentive to the doctor and--

Dr. Mortimer: Without being too rude to the medical profession, the doctors are part villains in this piece as well because it is much more convenient, as a doctor, to walk around the hospital in the morning and see 10 patients than it is to have them coming in to the office at different hours of the day. It is very easy to say: "Spend a couple of days in hospital. It is all paid for."

There is more than one way of skinning that cat. The United States skins it in a completely different way. The US has come up with a system called DRG, which I am not totally advocating; I am just showing you what exists. DRG is a diagnosis-related grouping. Let us say the diagnosis is cataract. The insuring body will pay the hospital $1,200 per cataract. It does not matter whether you keep the patient in for a day or a week. It does not matter if you do not admit him to the hospital. The price is the same, $1,200. Some hospitals make a profit on $1,200 and some hospitals lose their shirts.

What happens is that the hospitals then start looking at the most efficient types of surgery and that has disadvantages. They say, "We are not going to handle triple-artery bypasses here." That is the downside of it. The plus side of it is that you get a very finely honed, efficient organization that says, "We can do cataracts for $1,200, thank you, and we will keep on doing them."

In Toronto, the price of a cataract varies from a low of about $600, as an outpatient, to a high of $3,000 or $4,000 at other hospitals.

Mr. Foulds: For an inpatient.

Dr. Mortimer: Yes.

Mr. Foulds: I am just spit-balling. Do you think the medical profession would respond to, say, a differential fee for outpatients? That is, the doctor and the hospital gets some kind of bonus. I do not know how you would work it. I do not know what kind of formula you would use for, if you like, saving money in the other part of the health care system.

Dr. Mortimer: As long as the patient is not jeopardized in any way.

Mr. Foulds: Yes.

Dr. Mortimer: As long as you do not lose your ability to work in the patient's best interest, and this is the real difficulty of introducing financial incentives.

Mr. Foulds: Yes, and that would be the difficulty of the DRG thing you mentioned.

Dr. Mortimer: Absolutely.

Mr. Foulds: There might be a real pressure both on the doctor and on

the patient for an outpatient situation when, in fact, an inpatient situation is required.

Dr. Mortimer: I will tell you what happens. As a result of the DRG system, all good, healthy patients get done in private, ambulatory surgical clinics, and all the rotten old 90-year-olds with diabetes and strokes all end up in the university hospitals, which lose their shirts over them.

All these systems have a downside to them, but I just throw that out to show you that other people have grappled with this problem and come up with different answers.

Mr. Foulds: I have taken too much time.

Mr. Chairman: What did you say DRG was?

Dr. Mortimer: Diagnosis-related grouping.

Mr. Laughren: I will be brief with your time. I am glad you are wrestling with this problem of cost control. I am pessimistic, myself. I looked at page 2 of your brief. You state, and this is the core of your message to us, that if we choose to provide everything through our taxation system without any consumer participation, without external funding, we are doomed either to lower our standards or to restrict our services.

It seems to me that tenacity, or the determination to hold on to life, is such that the expenditures will be made. It is a question of who makes them. Therefore, we are really talking about how the costs are distributed in our society. I am not sure how you come to the conclusion that we are spending less on health care if the people who are sick are the ones who spend it, rather than the people who are well. You see the point I am trying to make. I come at it as a socialist.

Dr. Mortimer: I see the point you are making, sure.

Mr. Laughren: To me, the question is whether everybody pays it or whether the sick pay it, more than they do under the present system. I am not trying to be combative with you, but I really do see that as the question. Because of that question, I end up by saying, the determination to cling to life and to have a healthier life at whatever cost means those expenditures will be made. It is just a question of by whom.

Dr. Mortimer: I am completely with you, sir. I tried not to espouse a particular cause here, because I did not want to come across as partisan in this. The expenditures will be made.

What I am suggesting is, can we find other groups prepared to make those expenditures in a way which will not affect our universal access? Are there other groups, whether they are insurance companies-- We come back to the whole question of things like first-dollar coverage. Maybe we are wrong in trying to think it should be first-dollar coverage.

I do not know how we should handle it, but you are right, the money will be spent. I am grappling with the fact that, as a provider, I fear that five years from now there is going to be even less money in the system to do the things which make medicine exciting to me and to a university department.

Mr. Partington: I would just like to say again what an outstanding

brief you have submitted to us, and clearly, your statement--and maybe you can reiterate it if you would--that Canada is unique in being the only jurisdiction in the world that is bent on fully funding all health care by tax revenues--

Dr. Mortimer: That is absolutely so, sir. I have been practically all over the world giving lectures and things. I make a point wherever I go of listening carefully to how their system works, and I think we are unique in attempting to provide every aspect.

Mr. Partington: Following up on Mr. Laughren's question about the fact that costs will be there, would it be reasonable to suggest that when a service like medicine is free, that although there may be people who deem they need it, there clearly must be a tendency to overuse it. If you are not paying for something, if it is free, do you not see in the system that there may be an overuse of the service on the part of everyone, not just the patients.

1230

Dr. Mortimer: This gets terribly invidious, but there is no question that things that are free are abused. If your car insurance were free, it would be the same. This morning I had a patient giving me a very hard time over the cost of a pair of glasses because she had bought the glasses. She was completely oblivious to the fact that she had both cataracts done by the state and her insurance company, and that the government had expended all sorts of money on her. What she was really cross about was the fact that she had to pay money for glasses. She said, "I think it all should be free."

Mr. Partington: You have indicated as well, that if we try to provide everything through the taxation system, we are doomed to lower standards or restricted services. Currently, 32 per cent of our budget goes to health, 61 per cent on social expenditures. Are you saying that, apart from inflation, if we continue along this path we will require more money?

Dr. Mortimer: Yes. It will not be 32 per cent; it will be 34 per cent or 37 per cent. It is not going to go up just by the amount of inflation.

Mr. Partington: Often that is because of the inventiveness, particularly in areas where the private sector is paying for the inventiveness, such as in the United States.

Dr. Mortimer: Yes.

Mr. Partington: We heard earlier from a university witness that, in the United States, two and a half times is spent per student on education care, although they have some money in private care, and perhaps there is an indication where there is a difference already.

Dr. Mortimer: Yes.

Mr. McFadden: Dr. Mortimer, are you aware of any studies that would indicate a probable increase in expenditure of medical costs and the likely impact that would have in terms of the total provincial budget? Is there a point at which we will reach 50 per cent or 40 per cent and then it will level off?

At one point, education worked its way up to virtually 40 per cent and now it has dropped to 18 per cent of the total budget. It is interesting to

note that the increase in health care costs is roughly parallel to the drop in education. I think one of the values society is clearly saying, whether you are doing it implicitly, is that we are putting more money into health care and, to some extent, we are reducing the priority we are putting on education. You have hit both sides in your brief.

Have you seen any studies that would indicate where we are heading in terms of the types of health care dollars we will be looking at 10 to 20 years from now? Is there anything around that you have seen on that?

Dr. Mortimer: I am afraid I am not really strong on the health economic literature. I think one would have to read the literature to find out. I am sorry, I cannot do that.

Mr. McFadden: But your educated understanding of it, at least from what you have seen, is that we are likely to be forced to spend more as a percentage, rather than less, based on an ageing population as well as the technological breakthroughs.

Dr. Mortimer: I think we must spend more because of the ageing population and the technological breakthroughs. There is no way out.

Mr. Chairman: Supplementary to, and perhaps in partial answer to what you are asking, Mr. McFadden, I seem to recall that Premier Pawley recently made a speech--and I do not recall the time frame in which he was speaking. In a certain time frame, he suggested that if present costs, expenses and revenues continued on in their present course, health care would consume more than 90 per cent of the budget. I do not know if the time frame is that far away.

Mr. McFadden: There go the roads.

Mr. Chairman: Which brings us to an appropriate conclusion.

Mr. Foulds: I may say that 90 per cent of the budget of the Ministry of Health would be going down--

Mr. Chairman: I cannot say for sure because I do not have that source, that speech, but I think he did make a speech that extrapolated something terribly serious. You have brought this very clearly to the attention of this committee. It is obvious that this is a problem that has to be addressed by any provincial government, and this committee is undoubtedly going to have to look at it very carefully.

It was mentioned earlier that the Ontario Nurses' Association approached the same problem in a slightly different way. We are going to have to grapple with it. We appreciate the work you have done to bring it to our attention.

The committee should be reminded that the Conference Board of Canada, which meets with us at two o'clock, has a plane to catch and will need to leave at three. Please be on time.

The committee recessed at 12:34 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

TUESDAY, MARCH 24, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Conference Board of Canada:
Nininger, Dr. J. R., President
Frank, Dr. J. G., Vice-President and Chief Economist

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, March 24, 1987

The committee resumed at 2:04 p.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: This afternoon, we have with us Dr. James Nininger and Dr. James Frank from the Conference Board of Canada. We have material that is being passed out which will supplement the comments Dr. Nininger is going to make. He has indicated to me--and he will reiterate it to you--that he is basically providing us with information as opposed to recommendations.

I should inform you that in addition to the material that is being handed out, there are about six or seven copies available--enough for the people who are here--of the survey results of Consumer Attitudes and Buying Intentions, volume 2, number 4 . We might as well hand those out to those who are here.

There are a number of other survey results, of which we have one copy only, on a number of different topics that may be of some interest to the committee: highlights of the competitiveness of Canada's officially supported export financing system; tax competitiveness of the Canadian newsprint industry; tax competitiveness of the Canadian telecommunications industry; tax competitiveness of the Canadian steel industry, which is terribly important to this committee also because we are planning shortly to do some lobbying in Washington in so far as that industry is concerned; the competitiveness of Canada's corporate tax structure; and the Canadian polyethylene industry.

Dr. Nininger, you can take over.

CONFERENCE BOARD OF CANADA

Dr. Nininger: We are very pleased to accept the invitation of the committee to meet with you this afternoon. We would like to use this opportunity to discuss with you our views on the Canadian economy and the provincial economy. In doing so, we would like to provide you with some information that, hopefully, you will see as helpful to you in the discussion period we will have afterwards, and subsequently as you prepare your reports.

I would like to say at the outset that I want to compliment the fact that this committee is sitting. We did a research study in 1981 on the federal revenue budget process, because at that time there was a lot of criticism at the federal level about the fact that there was no regular budget. In that research study that we did in 1981, we gave a bit of an example of the case of the Ontario process having input to its revenue budget. Ontario at that time really did show leadership in Canada, even though it was not as open as it is now. In our analysis of various provinces and other jurisdictions around the world, at that time Ontario had shown a lot of leadership. The very fact that this committee is meeting and having these hearings places you even further in terms of leadership and having input, discussion and dialogue before the budget is put together.

Mr. Chairman: I want to thank you for the compliment, but perhaps in so doing, you can indicate to us, particularly the chairman and the Liberal members of the committee, what we are going to do if eventually our report does not jibe fully with the budget.

Mr. Ashe: Or not at all.

Mr. Chairman: That is a problem the parliamentary system has when we deal with something like this. It keeps me awake nights.

Dr. Nininger: I guess I might say one step at a time.

Mr. Taylor: Hope springs eternal.

Dr. Nininger: Here at least you are in the process of submitting a report. After the budget is released, we will be happy to make a comparison between the things that you recommend and the actual budget and just have an informal meeting on it. As I say, one step at a time, and this certainly is a good step.

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Just a word about the Conference Board of Canada before we begin. We have no brief for you today. We have no recommendations as to what government should be doing and that is because our mission and mandate are to do independent nonpolicy prescriptive work. That is part of the mandate of the organization. It has been for the 15 or so years that we have been in existence.

What we would like to do then is give you our view of the Canadian and the provincial economy. I am going to make some preliminary comments and then Dr. Frank will be going into a little bit more detail with respect to some of the numbers. Then we can talk about some of the issues that you will be debating as you put your report together. I just wanted to make the point that our mandate is to be nonpolicy prescriptive. For example, we do a forecast of Ontario every quarter. The forecast is based on the policies that are in place at the time the forecast is done, so we do not assume, for example, what the next budget is going to be nor do we recommend in any of the forecasts what government should do.

With that backdrop, let me just spend five or six minutes relaying to you what the main message of our presentation is. There are a number of points I would like to discuss: an overview of the Ontario economy; the Canadian dollar; the federal fiscal position; the US economy; and then just a word again on the Ontario economy as a way of introducing our subject.

You do not have the handouts. These are materials that are sent to all of our members, including throughout the Ontario government, that are available and we hope now that we are making this presentation you will feel free to request these forecasts throughout, because they do come out every quarter and they are publicly available. While we will not be going over the numbers in detail, you will get an idea of the kinds of things that we do.

First, just a word or two on the Ontario economy. It has been the economy that has performed the strongest in Canada since the recession of 1982, and we see that being the same in 1987. We see Ontario's economy as doing well and above the Canadian average. Clearly, there is no recession in sight. It is the fifth year of the expansion and in that it is the fifth year

of the expansion, there is a natural tendency to have some slowdown, so we do see a slowdown coming in the Ontario economy over the next couple of years.

It is for a number of reasons; first, the phase in the business cycle we are in. A second reason is that the tax increases the federal government imposed have had an impact of slowing down the economy. The collapse in oil prices is a third factor and the fourth is the weak US economy that we have seen.

Turning to the second issue, again in an overview, what about the Canadian dollar, because the Canadian dollar will have a main impact on the budget for Ontario? Will it stay where it is? Right now, it is between 75 cents and 76 cents. How long will it stay there? This is a key question for policymakers. Certainly, a strong Canadian dollar does mean a slowing down of exports for the companies in Ontario that do export. It means a slowing down for them. It means their profits will fall as a result of a stronger dollar. However, the positive side of it is that it does help on the inflation front.

A question is then--as I know Treasury will be thinking about as it puts its budget together--what is the outlook for the Canadian dollar? A cent or two or three makes a big difference on the fiscal outlook. Assuming that the federal government wants to bring down the dollar, assuming that it feels now that it cannot sustain the value of the Canadian dollar at the present time, how will it bring it down? We already have interest rates that are quite low. It can bring it down further by lowering interest rates, but how much of a decrease would it take and how long would that take with respect to the Canadian dollar?

The third overview point is the federal government and what we would refer to as its fiscal stance. The federal budget deficit has been brought down. On a public accounts basis, it has been brought down from $38 billion to $32 billion now and projected to be just under $30 billion in the next fiscal year for the federal government. It is clear to us, though, that the last federal budget signalled the end of significant changes in the deficit through either raising revenues or decreasing expenditures.

We do not envisage significant reductions in the federal deficit through spending cuts or increases in revenues through tax increases. We would see the fiscal stance of the federal government being noncontractionary at this time. This means we must be looking at tax reform, as the federal government is looking at tax reform, as one of the key policy issues to position itself in the longer term to raise revenue. That has an important impact on Ontario.

The fourth point is the US economy. Our economy is driven by the US economy. We know that; it is very clear. Therefore, what happens in the US in terms of its growth is very important. Last year, the US economy grew about 2.5 per cent. This year we see it about the same. We see it picking up towards the end of 1987; so 1988 for the US should be a good year. Tax reform is behind them. That tax reform did have some adverse effects on business investment, but it is behind them now. We see their economy picking up, which should be positive and helpful to Canada and Ontario in terms of exports.

On the fifth and last point and turning to Ontario again, we see 1987 as being a good year. Not all regions and not all industries will share in the overall growth that is taking place in the provincial economy. We see the auto sector weakening somewhat in 1987 and 1988. It has been very strong. If this happens, it will happen because of lower exports and lower consumer spending on those kinds of products. On a cautionary note, we see inflation on the

upturn; there are some signs that inflation is picking up gradually. Interest rates, which have been at their lowest levels, we feel have now bottomed out. We see a lot of strength in the Ontario economy in the housing sector which has been extremely strong.

Those are some overview comments and I would now like to ask Dr. Frank to go into a little more detail on some of the things I have raised. He will spend about 15 minutes on doing that and then the rest of the time is open for discussion. Is that okay?

Mr. Chairman: Yes.

Dr. Frank: If we can leave you people with a number of messages, I think that Jim has summarized them. I would like to give you a little more detail and some of the rationale for the way we see things unfolding over the next year or so as a way of moving towards a question period.

Last year in Canada we completed the fourth year of our economic expansion and we had a growth rate of just over three per cent. In contrast to that, Ontario grew by five per cent. It was the strongest province in the country. If you compare the situation here with the other provinces, we had Alberta in very dire straits, mainly due to the problems with the oil and gas industry. That condition will probably persist for another couple of years. The differences across the country are profound, just as they are within the province.

When we look ahead to this year and next year, the main thing to keep in mind is that we see this economy in Canada and Ontario slowing down its growth rate. We are in the fifth year of expansion. Next year would be the sixth. Given the cuts in the deficit at the federal level, the slowdown in the US, the oil and gas price collapse out west, it is quite normal for us to be experiencing slower growth, but the main message is that we will not be seeing five per cent next year. The current Conference Board of Canada outlook is for about 33.3 per cent growth for Ontario this year, dropping to about 1.9 or just under two per cent in 1988.

That means that while Ontario has been performing better than the national average for the last few years, we think it is now going to move towards the national average in terms of economic performance. Its inflation rate has been running in excess of the national average for the past couple of years. Last year, as we at the conference board forecast, the inflation rate was around 4.6 per cent for Ontario compared to about 4.1 per cent for the country as a whole. This year again we expect a slightly faster rate of inflation in this province partly due to the fact of a very strongly performing economy in the industrial heartland, and we think that is going to continue for the next year.

We expect the unemployment rate in Ontario to be under seven per cent on average this year and then dropping to around 6.5 per cent next year. That means some parts of this province are effectively at full employment. That means wage increases are starting to heat up a little bit in the province, more so than in other parts of the country.

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When we look at key assumptions that go into any forecast, probably the most important has to do with this outlook on the United States economy. Interest rates, if anything, are the key variable for Canada. We expect the

overall growth rate to improve this year, as Jim mentioned. In the latter half of the year, it will start to pick up considerably so that by next year the US economy should grow around 3.5 per cent. That is assuming that this low-interest-rate situation that currently exists in the United States is allowed to persist.

We do not see any reason American policymakers would want to slow that economy down. Inflation is not a serious problem at all. In fact, if they are worried about anything, it is that the economy is not growing quickly enough. Our sense in terms of the US policy bias is that it is going to be very much pro growth regardless of who gets in as the Federal Reserve System chairman. It now looks like Mr. Volcker may well be reappointed.

Oil prices are a key variable in any forecast, especially for Canada. What we have now in terms of a scenario is around $17 a barrel, rising gradually to around $19 to $20 by the end of the decade and in the early 1990s. In plain English, that is a stand-pat, gradual rise with the general rate of inflation. We do not see a marked change in what we are living with now. That means that in the oil and gas industry in the west, there will not be a major turnaround in investment activity at least until 1989. Industry here in central Canada that is affected by the oil and gas industry in the west is going to continue to experience fairly soft markets.

One of the dilemmas we have had in Canada over the past year and a half or so has been the difference between our interest rates and those in the United States. We have kept the spreads between the two countries pretty wide. The main reason we did that was as a result of the weakness in our currency last January, February and March where if you recall we traded just under 70 cents for a few days. Our response was to raise interest rates right away, attract money into the country and firm up the currency. Those high spreads persisted pretty well throughout the year. Then, lo and behold, we experienced a lot of capital inflow in the last quarter of last year and our currency started to rise in value. We did not really reduce spreads very much until just in the last month and a half. Now we are down to just a little over one percentage point on 90-day commercial paper, which is about a third of what it was last year at this time. We have brought interest rates down a lot.

The profile of interest rates that we are working with in our forecast--and it is in the document that I gave you--is a dip down to the bottom being reached in the first quarter of this year and then gradually rising throughout the rest of the year and into 1988. I hasten to emphasize that we are not talking about a rapid run up in interest rates, we are talking about a gradual increase in interest rates that essentially tracks the rate of inflation increasing in this country, and also the US situation where we see interest rates rising as well.

Let me turn to the situation in terms of consumer spending. This is the area that has been the strongest part of our economy, not only here in Ontario but also in Canada generally. Last year, consumer spending amounted to a growth rate of around four per cent in Canada. It was a little over five per cent in Ontario in real terms; very aggressive spending by consumers.

A lot of that occurred in the auto industry. Since the recession, the auto industry has experienced about four years of very good growth, highly profitable, basically full-capacity operations. In our view, that situation is over now. In the next year or so, we expect spending in real terms on automobiles to decline by about three per cent in Canada and then to decline again next year by about one per cent. We have reached the peak and the growth

rates are going to slow down and in fact be negative in our view. This is not to say the industry is going to come into the kind of serious crunch that it did during the recession, but rather its activity is going to tail off a little bit over the rest of this year and into next year.

When we look at the number of vehicles sold, in 1986 there were about 1,090,000 cars sold in Canada and we are forecasting this year about 1,050,000. It is not a huge decline in the number of units that we expect to be sold.

When you look at consumer spending, again across Canada, Ontario is still leading the pack. The best illustration of that are retail sales in January, which were up by 6.5 per cent compared to a year earlier. Ontario is the strongest province, in comparison to Alberta dropping by 7.5 per cent. The picture in terms of the consumer generally in this province is very optimistic.

There is a handout here called the Consumer Attitudes and Buying Intentions Survey and there is an enormous amount of detail in there. I want to make a couple of points about consumer confidence. From the research we have done over the years, we know that consumer confidence tends to drive any economy. In Canada, consumer confidence is very sensitive to interest rates. Last January, when interest rates rose sharply, consumers' confidence dropped. They hunkered down and they started to pull back in their spending. When interest rates fell, the reverse was true. This confidence index that we do for Canada bounced from 123 in the fourth quarter of 1985 down to 104 in the first quarter of 1986 and then bounced right back up to 130 in the second quarter. You can see the relationship with interest rates there.

What about Ontario versus the rest of Canada? Ontario's consumers are the most confident in Canada. The index in the fourth quarter of 1986 for Ontario was 136. The Ontario consumer has remained pretty confident throughout the whole scenario. In fact, in the last three quarters of 1986, the confidence index was over 130. It does not surprise us then that retail sales held up in this province over the Christmas season as well as they did or that sales were fairly strong in January.

What we expect to happen here is that in the province, consumer spending will continue to be reasonably strong for the next six months at least, because this index is a good leading indicator of spending approximately two quarters ahead. Suffice it to say that where interest rates sit now and given the survey results we have, we expect consumer spending in the province to continue to be reasonably good, although again, it is slowing down.

When we look at business investment, in Canada this has been a pretty weak part of the economy. We are forecasting this year growth of only around two per cent in real terms. Ontario is again quite different.

I would just like to emphasize a couple of points here. First of all, when we look at residential construction--and this is not news to you people; you live in the middle of the hotbed of activity--Ontario's spending grew by almost 30 per cent last year on the residential side. We are forecasting a growth this year of about 25 per cent. We still expect at the conference board that the residential construction market will expand very healthily throughout this year. That is conditioned on that interest rate forecast we talked about and some of the other things I have mentioned.

By 1988, things do flatten out. It will be running along at a fairly strong level of activity, but not the kind of growth rate that we had over the previous two years.

Mr. Chairman: I am just wondering, are we supposed to be looking at this document?

Dr. Frank: If you want to follow some of the details on this, take the Provincial Outlook, Executive Summary. There will be some numbers there you might want to study.

When we look at housing starts in this province, last year there were about 81,000. We are forecasting about the same number this year and then falling to around 70,000 next year. With the interest rate profile and the income growth that we have in the forecast, we think that is a reasonable result to occur. There is a difference between singles and multiples. Multiples are holding up a little more strongly than singles over the next year in terms of that overall total of about 84,000 or 85,000 units.

In the past five years since the recession, there has been an enormous amount of spending in the economy on modernization of plant and equipment. It is basically aimed at increasing competitiveness and productivity. Some of that has led to a less rapid employment growth than would otherwise have occurred given the expansion that took place in the economy. Ontario, again, has been one of the major recipients of that growth in machine and equipment spending. It expanded very rapidly last year, and we expect another very good year this year and on into 1988. It is the only component of business investment that has grown consistently since the recession, and Ontario is in an area where much of that is concentrated. In plain English, it is the lot in the auto industry and in other manufacturing industries as well.

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The weak spot has been in nonresidential construction, and that is where the oil and gas industry has been very, very badly hit. As you know now--the news is quite public--in the case of Alberta, its deficit is over $3 billion this year and it has been revised upwards now twice. Saskatchewan has introduced a restraint exercise, mainly because of agricultural prices and also oil. In the case of Ontario, though, nonresidential construction has moved ahead in real terms by two to four per cent over the past couple of years and we think that will carry on for another year. This province and Quebec have really been the two provinces in Canada that have grown very aggressively over the past few years.

Turning briefly to governments, from a practical point of view, the federal government has made quite significant strides in terms of reducing its deficit. The deficit-gross national product ratio fell from around seven per cent two years ago to about five per cent now, and we are forecasting around four and a half per cent for the coming year. The thing that strikes us as we look at the situation there is that much of that deficit pattern has come from tax increases as opposed to spending cuts. I know that Mr. Wilson makes the point repeatedly that there have been cuts in discretionary spending and that is, of course, true, but when you weigh the balance of the change in that deficit, it comes down on revenue increases.

Our sense, starting really last summer and into the fall, was that we had seen the last of that type of approach to cutting the deficit; in fact, in the February 18 budget, the deficit projection was revised for this past year--as you know, that started to fall--to $32 billion and for the current fiscal year to about $29.3 billion. That really signals to us that we will not see much more deficit cutting from the federal government over the balance of its term.

To put it in another light, there was an accounting change that moved and shifted ahead by two weeks the remittance of taxes, unemployment insurance and Canada pension plan payments from employers, which moved $1.2 billion into the next fiscal year that would not otherwise have occurred, so on a comparable basis the deficit is probably a little over $30 billion for this coming fiscal year compared to about $32 billion in the previous year, so there is not a lot of reduction occurring there.

Our own model suggests to us that the federal deficit will continue to track and, in fact, rise gradually over the coming years unless further policy changes are made. This leads to what Jim alluded to; namely, the whole issue of tax reform as a way of raising additional revenues to reduce the deficit.

The Ontario situation is a bit different than some of the other provinces when it comes to the deficit because you have been successful in bringing it down gradually since the peak was reached in 1983-84. The question, of course, is how you go further with this and is the deficit now more or less--we make the distinction between structural and cyclical--is a large part of that deficit that remains a structural deficit? Of course, that is a tough one to answer, but in this province, after four years of good growth, it is starting to look like the deficit sits at around $2.5 billion or $2.6 billion and probably stays there unless there are further initiatives to cut it. I think it is the same kind of story at the federal level. That $30 billion seems to be a number that is hard to break through unless there are major shifts that occur in either spending or revenues.

On the export side, we have exports really leading this Canadian economy again for this year and next year, driven off a strong US rebound. The surprising strength of the Canadian dollar in the first few months of this year is now causing us a lot of heartburn and wondering where the policymakers stand on this issue, because up to late last year it was quite clear that what was happening was interest rate differentials were being managed to keep the currency roughly around 72 cents. Now we have a currency that sits at 75 cents.

We look at the fundamentals: current account balance, which is in deficit; merchandise trade surplus, which has basically dropped to half; and relative inflation rates between the two countries not in our favour. Those kinds of things suggest to us that the currency will probably be brought back down gradually over the next three or four quarters into the 72-cent or 73-cent area, and the issue will be how do you do that except through interest rate policy. There is a lot of speculation going on in our shop right now as we go through this forecasting exercise to try to figure out how we are going to read the tea leaves on exchange rates.

Interest rate differentials between the two countries, as I said earlier, have been reduced significantly to the point where just last week on 90-day commercial paper the differential was only one percentage point. That is really quite low compared to where we were even six months ago. The underlying strength that has occurred in the Canadian currency due to capital inflows has been significant, and that is what brought the currency up, but I guess our own sense is that the real side of the economy is not driving our currency value.

Just to wrap it up briefly, on the employment side, there are clear signals that have been going on now for the past year--and we have been forecasting this regularly--that employment growth in this country is slowing down. To give you a sense of that, last year in Ontario there were about 155,000 new jobs or net increase in employment. This year we are forecasting

about 122,000, and next year, 1988, about 105,000. So this slowdown in employment growth is very much the same sort of pattern as we are experiencing on the national scene as a whole. This does mask the situation on unemployment rates, which I said earlier are going to be probably around 6.5 per cent by next year, which means in some parts of the province you are working with full employment.

We know from our research on pay planning in the compensation research centre and our monitoring of collective bargaining results and pay setting that Ontario is going to experience, and is experiencing, a rate of increase in wages that is probably the fastest in Canada, and it is simply a reflection of the tighter labour markets in the province. This is leading to what I said at the beginning of my comments is a more rapid inflation rate in this province than is the case in other provinces.

Just to wrap it up, when you look at Ontario again, the strongest economy over the past four or five years, again another good year this year with a little over three per cent growth we think in real terms, unemployment rate continuing to come down and being under seven per cent, but the inflation rate is turning around on us, and we think that is an early sign that tightness in labour markets is working as you normally find it working at this stage in the business cycle, leading to cost pressures.

The big question mark for us is what happens to the currency. Clearly, at 75 cents or 76 cents, we will not get the export growth that we were forecasting. We are also going to see pretty much all companies that operate in the international market, where their products are priced in US dollar terms, their profitability is going to fall by definition, and this going to hurt the general level of activity in the province. When you start to put all this together and ask, "Where does the currency go over the next six months?" I guess our own sense of it at this stage is that it probably trickles down gradually and in a managed fashion.

Those are the kinds of comments that we would like to leave you with, and we will try to answer any questions that you may wish to raise.

Mr. Chairman: I think you have given us a lot of promise. I want to make sure I understand the number of new jobs you were talking about. Last year was 155,000 and this year is 120,000?

Dr. Frank: I think I said 122,000.

Mr. Ashe: He said 122,000 and 105,000 next year.

Mr. Chairman: We have questions from Mr. Ashe, Mr. Laughren, Mr. McFadden, Mr. Foulds and Mr. Partington.

Mr. Ashe : I followed your presentations, Dr. Nininger and Dr. Frank, and I think you had us all entranced, so to speak.

I found one of the things at the end a little inconsistent. I do not understand it and maybe you can explain it. I appreciate the way the whole discussion started, that you only make forecasts not recommendations and suggestions vis-à-vis policy. If I understood you, particularly Dr. Frank, towards the end you were both saying that interest rates, as you see it, have bottomed out. I think Dr. Nininger made the specific reference to the first quarter coming to an end. That is within a matter of days. I think Dr. Frank made it more direct by saying, "We think they have bottomed out." Taking that

scenario and the value of the dollar--there seems no suggestion right now of weakening unless it did today. I did not hear any numbers today. You may have heard on the noon news what was happening to it--it has generally speaking been going up virtually every day with the odd blip maybe once a week lately. Yet you say that in your view that has to come down. Those two do not come together.

You also indicated that the way we kept the dollar up last year was by increasing interest rates and increasing the differential between American and Canadian interest rates. If you take that scenario as being right last year, how can both those other forecasts be right now, if the dollar is going to go down and interest rates are going to go up? You said that last year interest rates went up to bring the dollar up, so if the dollar is up and continuing to rise, it would seem the only way that you are going to bring it down, possibly, is for interest rates to go down or vice versa. If interest rates go up, the dollar goes up further.

Dr. Frank: I will go over it again and maybe try to answer your question. Throughout 1986 we in Canada kept the difference between our interest rates and those in the United States quite wide so it made Canada attractive for investors. In the last quarter of last year, there was an enormous amount of money that flowed into this country, particularly from Japan, in long-term government bonds.

Mr. Chairman: Can you speak a little louder or a little closer to the microphone, Dr. Frank?

Dr. Frank: What that capital inflow really reflected was foreigners' views that Canada was a good place to put long-term money or in the case of money that was going into the short markets on the short end, and so the interest rate spreads that we had up until January were quite wide and quite attractive when you compared the alternative in the United States where there was a feeling that the economy was really slowing down and, in fact, it was. Their growth rate in the fourth quarter was just over one per cent of annual rate, so they were in trouble relative to us. This again is a relative situation in terms of the perceptions of foreigners about Canada as a good place to invest.

The way we have traditionally managed our currency is by interest rate spreads and this is why I emphasize that it is a real puzzle to us to try to forecast, first, where the policymakers are going to go with this and second, whether the currency will respond that way, because the spreads have been narrowed quite significantly in the past six weeks and yet the currency is still strong.

If you ask yourself why foreigners would invest in Canada, particularly in long-term instruments, does it suggest that they feel this economy is somehow "undervalued"? Our stock market has not performed, let us say, as other stock markets and therefore they see our assets as undervalued. I think you have to start asking that kind of question in order to explain why money has continued to flow into Canada and kept the currency high.

How long can that go on? That is the dilemma for us and that is why I am saying to you that we think probably the most likely scenario is for the dollar to start to weaken gradually over the balance of the year probably to 72 cents or 73 cents.

Let me just make another point about--

Mr. Ashe: Maybe you can roll it into this last part. If you acknowledge that maybe one of your two scenarios does not come true, and based on last year they will not, which do you think is most likely to be incorrect? In other words, are interest rates more likely, in your view--

Mr. Foulds: Stop beating your wife.

Mr. Ashe: --to continue to go down or the dollar to continue to go up? Which is more likely? Again, you are saying it is going to get back to normal. I accept that as being your preference.

Dr. Frank: The most likely scenario is that interest rates will continue to be reduced until the currency starts to stabilize and then is brought gradually down. Our reading of policy in Ottawa is a very simple one. It says that it is currency stability that we are aiming for, particularly if we are at all correct in this forecast that says the economy is, in fact, slowing down, that two per cent is in the cards for this year and under two per cent next year, there is no interest in having interest rates any higher than absolutely necessary. The policymakers will want to bring interest rates right down as low as possible. You are just as familiar as I am with all the positives that would come from a lowering of interest rates in not just Ontario but Canada generally. I think you have keyed me on it. That would be the thrust of what we are saying. We are surprised, though, at the strength of the currency.

Mr. Ashe: In your view, there is no possibility of the 80-cent dollar in the immediate future?

Dr. Frank: I would say it has a low probability.

Mr. Ashe: There are two other areas, Mr. Chairman, and I do not think either of them will be very long. The United States, as you identified, went through its tax reform. It would appear we are going to have at least some proposals on our proposed federal tax reform shortly, and probably whatever comes out of that discussion afterwards implemented for fiscal 1988.

Again, as a board, were you surprised or did you figure that was norm, that the United States, at least it would appear from your forecast, was able to work through the pluses and minuses tax reform basically in a year or a year and a half? You are saying you see a lot of strength there for 1988. This is really the first full year for a lot of the tax reform measures in the United States. Is that good? Is that bad? Do you see that as a possibility here, appreciating you do not know what it is going to contain yet, but presuming they are going to go something along the same route, closing loopholes, cutting down numbers of tax rates, etc.?

Dr. Nininger: We can do this one together. I guess there was a considerable amount of surprise in the United States about the speed with which tax reform did take place. As you know, tax reform there was at the corporate and individual level. It did not touch the consumption tax side. It was because of the speed of the US tax reform that the federal government decided to back off only a partial tax reform, i.e. the corporate side, and decided to do a complete analysis of the whole tax system.

That has been more complex and far more difficult than I think envisaged by the federal government. The sense now is that the reform paper will be out in May. As you have indicated, the timetable, after the discussion or debate takes place, will be reform of the corporate tax system, such that it does

come into effect in 1988 and that is to keep us in harmony with the United States, although I think there are some questions that we have to ask. Do we want to stay in harmony? Our tax system now, from a corporate point of view, is quite competitive with the United States. That was before their reform. I think we want to keep it competitive after reform as well, so we have to see what we want to do in that area.

Individual reform will probably take place in the budget of February 1988. This is all thinking of an election now, if you will, some time in late 1988 or 1989. The final plank in that will be the consumption tax and that is the great unknown at the present time. I think that is the one that is perceived as having the ability to broaden the tax base and essentially increase taxes.

Specifically, in answering your question, the reform that has taken place had a detrimental impact in terms of business investment and will in the first year. After that, we see it as being positive to their growth. It is very important that there be harmony there. So they have gone through that. We do not have as much room to move in corporate tax reform as the United States did in terms of lowering rates.

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Mr. Haggerty: The fact is they did not attain their goal, though. When they had the tax reform, the purpose was to reduce the deficit and their deficit continued to climb. Maybe that is why there is some hesitation here in Ottawa to follow Reagan economics.

Dr. Nininger: As Jim Frank said, the federal government has come to the view that to really make a significant impact on the deficit, below where it is right now, is very hard to do on the expenditure side unless there are some very significant movements on some of the social programs, transfer payments and other kinds of things. In the light of that, there has to be more room for increasing revenue. It has helped them, and we have to position ours as well to help us from a competitive point of view.

Dr. Frank: As Mr. Haggerty has quite correctly commented, the Americans have talked a lot about cutting deficits, and we in Canada have gone further and more quickly than they have. Whether we have come to a stall or not is another matter. How effective they will be in actually implementing the full tax reform package they have put into place is increasingly becoming a question mark. In my dealings with Americans and economists there, I find there is a lot of scepticism that the full package will be implemented; it may experience some delays, setbacks or what not, because they will find they are in trouble with it on the deficit.

The other point here is that in the United States, if you strip away all of it, there was a $200-billion increase to the corporate sector over a five-year period and a $200-billion cut to consumers over the same period. That is what they call tax or revenue neutrality. In Canada, we had a reasonably competitive corporate tax system before they increased corporate taxes in the US. Therefore, the question, as Jim says, is how far do we want to go to keep in harmony there? That is a political question as well as an economic one.

Mr. Ashe: I have one last very brief question. I am afraid I know the answer. Does the board ever look at and/or pass on its views to the government of Canada vis-à-vis what it sees as the upper limit of the accumulative deficit the Canadian system is capable of bearing?

Dr. Nininger: The total debt, in other words?

Mr. Ashe: Yes.

Dr. Nininger: As opposed to the annual deficit?

Mr. Ashe: No. One flows to the other; that is sure, and the cost of carrying it.

Dr. Nininger: It adds up.

We do our quarterly forecast of the Canadian economy and our own deficit projections from a variety of sources. I think the message has come through very loud and clear to the federal government that the deficit has to be reduced and that would, therefore, gradually bring down the debt. Many groups have requested that. I guess the challenge is, how do you do that. After three years of movement in that direction, some movement has been made, but it is still fairly high. How do you make significant cuts in that?

Canada, as we all know, is a country of doing things in moderation. We are not for governments which, at least at the federal level, make massive changes in short periods of time. This government has made gradual changes in the deficit, but to bring it down a significant amount is going to be very hard, unless some of those basic decisions are made with respect to some of the programs I mentioned a minute ago. That means the carrying costs--it is very painful for us all--will remain high for some time to come.

Mr. Ashe: It is not only that they remain high; even with the gains that have been made in the annual reduction, the cumulative deficit is still continuing and will continue to rise. We are not paying it off. We are refinancing most of it. We are adding to it; so the percentage it takes to service the debt will continue to grow.

Dr. Nininger: You are right. The only thing helping on that side, to the extent that it is--

Mr. Ashe: The growth in the gross national product.

Dr. Nininger: No, it is lower interest rates.

Mr. Ashe: Yes, but even that helps only with new debt.

Dr. Frank: Mr. Ashe, the answer to your question, "Is there an upper limit?" is yes, there is. The next question is, "What is it?" Nobody knows.

Mr. Foulds: Ask Brazil.

Dr. Frank: Okay, but Canada should not be put into the same pot as Brazil in the context of deficits and so on.

Mr. Foulds: They found out what the upper limit was.

Dr. Nininger: I do not think we want to use that way of finding out.

Dr. Frank: We do not want to find out the hard way.

Mr. Chairman: As I mentioned, there are four other questions. Do you gentlemen have a plane to catch at some stage?

Dr. Nininger: No. We understood you would want to go until about 3:30. Does that make sense to you?

Mr. Chairman: Yes, it does. That is fine.

Mr. Laughren: Those members of the committee who are worried about the New Democratic Party--I do not know why--should find out how Tommy Douglas did it in Saskatchewan. It might be a sobering experience for you.

Mr. McFadden: Where is he now?

Mr. Foulds: He wiped out the deficit.

Mr. Laughren: He is dead.

Mr. South: Is there a westerner here?

Mr. Chairman: Mr. Laughren is from the country.

Mr. Laughren: I am just a country boy from northern Ontario; so I need--

Mr. South: Keep your hands in your pockets; that is what it means.

Mr. Laughren: --some help from you sophisticated, economic gentlemen. When you talk about trade, you talk about capital and current account, do you? Is that the general way of going about it? When you talk about current account, you subdivide it into merchandise, trade and financial services. Tell me about the services part of it.

I often see numbers that say we have a positive surplus on merchandise trade, and I very seldom see anything about the services section. One time when I did, it scared the wits out of me when I saw the services part of it. Is that in any of your documents?

Dr. Frank: Absolutely, but do not let anything like that scare the wits out of you.

Mr. Laughren: No.

Dr. Frank: It is really not worth it; you will live a lot longer if you just relax.

Mr. Laughren: I am just baring my soul to you.

Dr. Frank: A lot of very imprecise language is used when we talk about our trade, and let us talk about it this way: There is goods trade and there is services trade. We all understand what goods means. A year ago in Canada we had about a $17-billion surplus in goods trade. Last year, we had about a $10-billion surplus in goods trade. Do not quote me on those numbers, but they are close enough for our discussion. We had, though, a current account deficit of about $9 billion. That means there has to be a deficit on services trade of approximately $19 billion.

The goods trade and the services trade compose what we call the current account balance. The current account last year was in deficit by $9 billion. In the conference board's forecast for Canada, it is going to be in deficit for the next few years as well.

Mr. Foulds: Excuse me, is that Statistics Canada?

Dr. Frank: No, that is the Conference Board of Canada's forecast for Canada.

The services component of the current account is finance, insurance, those kinds of payments, transportation and freight, tourism, travel, and other kinds of payments, dividends and interest. Canada, almost without exception, historically has had a deficit on the services component of its current account. We sometimes have a deficit on merchandise, but in the past few years we have been running a surplus on the merchandise account. Somehow those things have to wash out or balance. How do they balance? This is where we start to talk about the capital account.

Think of the capital account as money; it flows in or flows out. The balance of payments has to balance. It cannot be anything else.

Mr. Laughren: Double-entry bookkeeping.

Dr. Frank: That is right; it is double-entry bookkeeping. When we have a deficit of $9 billion on the current account, we must have a surplus of $9 billion on the capital account.

Mr. Laughren: I am with you.

Dr. Frank: That is how it works.

Mr. Laughren: What is bothering me here is that $19 billion on services. Since Ontario is the financial centre of Canada, if you will, a fairly large portion of that $19 billion would be sourced from Ontario, would it not? Can you say that?

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Dr. Frank: No. I think what you have to say is that interest and dividend payments outside the country, travel--to the extent that Ontario happens to be the largest province in population, it would have the lion's share of that--real estate, insurance, transportation services--again to the extent that Ontario is the province where that originates--would be very large. I do not think the financial side of it should be equated with the flows on the capital account, which are the balancing items there.

Mr. Laughren: Can I ask you about something that is near and dear to my heart, the question of import penetration of the domestic market? I remember looking at some numbers once that showed, with the import penetration of anything even vaguely related to high technology--or high value added might be a better way of putting it--Canada led all sorts of nations, even places like Greece and Korea. We were basically an underdeveloped or almost undeveloped country in terms of the whole question of doing ourselves what a normally developed country at our stage of maturity would do. Does the conference board have any views on that and whether that is a problem as we head towards the next century?

Dr. Frank: We have not done any work on the issue of import penetration, but I think it is fair to say that one can pick items where virtually all our markets would be serviced by imports. We can also pick items where virtually none of our markets is serviced by imports.

Mr. Laughren: High value?

Dr. Frank: I want to come to that in a moment.

Also, we often get confused by what we call high technology. It is a really serious error we are making if we think about what it is that creates wealth and jobs. Too often, high technology is associated with things like this microphone, stereo equipment, chips and so on--

Mr. Laughren: The microphone was made in Austria, by the way.

Dr. Frank: --as opposed to the technology that is implicit in an automobile plant or in any of our steel mills. It is important to look at this from a different perspective as opposed to thinking of technology as just being the chip and the computer. We have an awful lot of high-technology, high-value-added activity in Canada. Our lumber industry is a high-technology and high-value-added industry.

Dr. Nininger: So is steel.

Dr. Frank: So is steel, so are autos.

You are quite correct that there are some product lines--for example, I do not think there are any televisions made in Canada. You could say there is 100 per cent import penetration in televisions. The question to ask is, should Canada try to compete by making televisions or are we better off competing in something we do well with a high value added?

Mr. Laughren: I know which law that is.

Dr. Frank: To be fair, I think that is the dilemma. Quite clearly, you could say: "The economy will be self-contained. It will produce everything it is going to consume within its borders." That is not going to work very well for us because we sell too much abroad for that to work.

Dr. Nininger: On the machinery and equipment side of things, we import a considerable amount of paper-making machinery or whatever from Germany in particular. We do not produce that. We do not manufacture it. In terms of the penetration, it would be high there, but the question has to be, do we want to substitute that? I think in some of those areas where we cannot compete, the answer is probably no.

We can check this out for you and give it back to the chairman. Whether Canada is an impoverished country because of the extent of import penetration across the spectrum, we do not know, but we could find that out.

Mr. Laughren: What bothered me was that I looked at the value added per dollar of export and compared it to the dollar value of imports. The difference was striking because we were importing high-value goods and exporting resources. I do not think that is anything new to the Canadian experience, but it really bothered me that we seemed to be just accepting that. There seemed to be no national strategy to turn that around.

Mr. Chairman: If you would be prepared to find some information for us on that, I think it would help this committee. We have had an ongoing debate as to the value of import substitution and so on.

Dr. Nininger: We will put some numbers together.

Mr. McFadden: I had three questions I wanted to ask. One relates to a witness who appeared here yesterday from the chamber of commerce.

Mr. Laughren: Dickie Dee?

Mr. McFadden: No, not Dickie Dee; from Kitchener. It deals with the deficit financing. The economist for the chamber of commerce really did not get into a lot of great detail. He did not provide a lot of information to us except he argued that deficit financing, if it is not also accompanied by an increase in the money supply, really does not create any economic growth at all. He was arguing that governments have gone on with deficit financing on the sort of Keynesian theory that it primes the pump and that in the good times we reduce it and this kind of stuff. He argued that governments had been following tight monetary policy and had deficits. The argument the chamber put was that it leads to no growth. There is nothing to it; there are just deficits that build up, for future generations presumably, but there is no multiplier in it at all. He says there is absolutely no multiplier if you run it that way. Have you any comment on that, one way or the other?

Dr. Frank: This goes back to graduate school, but I can tell you--

Mr. Ashe: A different school of economics.

Dr. Frank: No, it is not, but it does depend on how one finances a deficit. At the national level, for example, the federal government, through a bookkeeping entry which is typically called printing money, can finance its deficit by increasing its liability with the Bank of Canada; so it can stimulate the economy because it injects purchasing power. If a provincial government tries to do that, where does it "print money"?

The question he was addressing with you was, how does a province finance its deficit? If it simply takes it away from one group, i.e., borrows it from Ontarians, turns around and spends it, he is quite correct in a narrow technical sense in saying that has much less impact than would be the case if Ontario could print money as the federal government does. I am using that term a bit loosely for the sake of your question.

Mr. Foulds: It is bordering on Social Credit here.

Dr. Frank: If I can just make one technical point here that is important, it is not technically correct to say that governments cannot stimulate, in the case of a province, through the mechanism that we have talked about here; in other words, borrowing from people in the province. The reason is this: The marginal propensity to consume or to save is different from the people you borrow the money from versus those who spend it. For example, governments do not save in that context, whereas I do. If I save 10 per cent of my money, I will have less of a multiplier effect for every dollar that I earn than if I loaned that dollar to you as government and you spent it, because you would not save any of it; so the multiplier for government spending is higher than the multiplier for consumer spending. Technically, you can demonstrate that with the arithmetic, but the impact is different when you look at it from the point of view of national versus provincial government. The same thing applies to municipalities.

There is another fundamental difference on deficit financing that you people are familiar with. In the case of provinces, where they have to go to the marketplace, sometimes the international marketplace, to borrow to finance a deficit, there is a direct link between the amounts they are borrowing and

their credit rating and between the credit rating and the interest they have to pay for those borrowed funds. At the federal level, that linkage is not as clear. To get back to Mr. Ashe's question "How high can it go?" the answer is that we do not know, because there is not that direct link, but with provincial governments there is a direct link and it is called your bond rating.

Mr. McFadden: Then it gets too expensive to borrow.

Dr. Frank: That is right. It soon starts to cost too much to borrow.

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Mr. McFadden: You have cleared up, in part at least, that particular conundrum.

With regard to the rise in value of the Canadian dollar, you were saying you are not sure exactly why it is happening. We know that it is happening; we can see money flowing in and so on. One of the things that did strike me was I found it an interesting coincidence that the rise in the dollar took place almost coincidental with the most recent meetings of G-7. I am wondering if the federal government, in the short run at least, is allowing the dollar to run up to get through to the American government, particularly Congress, that we are not using our exchange rate as a trade subsidy; that has been one of the attacks, that we have artificially kept this dollar down when it should have gone up.

I have had discussions with American senators and congressmen--in fact, Mr. Chairman, you and I had one meeting with Senator Durenberger, I remember--and the Americans seem to have this view, probably pushed by some interest groups, that we are artificially holding down our dollar. I perceived, given the fact that we had higher interest rates than the Americans by a fair bit, that our dollar was finding its own level somehow. That is the argument I used with them, but I am just curious if you think there is some of that in this as well, that it is a signal to some extent at least that we were trying to deal with that kind of pressure coming from the United States, or do you feel that is irrelevant?

Dr. Frank: I do not know what deal was made there--Jim, you might want to add to this--but the view in the United States that Canada has kept its currency low is just so totally at variance with the facts that I find it hard to believe that people who read the tea leaves do not see that because, if my memory is correct, we spent something like $6 billion or $7 billion last spring to keep it from falling under 70 cents. We were doing anything but keeping it low.

Mr. South: We have the same problem with acid rain.

Dr. Frank: It may be so.

I just say it is at variance with the facts. The other problem that is going to get resolved and that has started to become resolved is the debate about what our current account surplus is with the United States. They are not doing, in truth, a very good job of monitoring their exports. The way we balance the books with the United States is that every June--

Mr. Foulds: Of monitoring their exports?

Dr. Frank: Their exports to us.

Mr. Foulds: Okay.

Dr. Frank: They count their imports accurately. They do not count their exports. The Americans have done that--

Dr. Nininger: As accurately.

Dr. Frank: As accurately, yes.

Dr. Nininger: They count them.

Dr. Frank: What happens is that their exports are understated by a considerable margin versus Canada and other countries. The way this gets resolved, and you might find this amusing, is that every June the Statistics Canada people and the American Commerce people get together and they say, "Okay, you tell me how much you counted coming into your country, we will tell you how much we counted coming into our country, and that is your exports to us and those are our exports to you." That is how the books are balanced. That is the truth of it.

Mr. Felligi, who is the chief statistician, went public on this issue just two weeks ago and said it is time that this became more commonly understood because the perception in the United States is that Canada is running this huge surplus that is just taking off for the sky when, in truth, in three months it is going to get re-estimated or resolved and it will be a lot lower. That it is not to say it will be a deficit, but it will be a lot lower than it is now being claimed in Congress in defence of Canada having to do some adjustment on its currency and so on.

To come back to the other point, I hope there is no conscious decision on the part of our government to drive up our currency because, for the reasons I explained earlier, we think that could hurt this economy quite severely. Any simulations we do with our model on a higher currency value immediately kicks down the growth rates in exports, corporate profits fall immediately, the economy grows less quickly and admittedly, we get slightly more inflation.

Mr. McFadden: I have the idea, though, based on at least reading the financial pages and some people I have spoken to, that the dollar has worked its way up through no particular policy of ours. A lot of Japanese money, as you mentioned, and other money including, I gather, American money, has been flowing into this country for a lot of reasons--not just interest rates, but there have been various reasons why it is parking itself here, and it could well move on. I just wanted to ask you that question because I was not quite clear and I did not see anything written on it. Your assumption is that it was not part of any arrangement.

The final thing I want to ask you about relates to the service sector as an engine of growth. As you might know, the provincial government here, with George Radwanski doing the study, looked at the service sector. I do not know whether you have had a chance to review that particular study. He made quite a powerful argument, in my view at least, that we have tended to discount the importance of the service sector and have been trying to prime manufacturing and the resource sector all the time when the overwhelming majority of jobs appears to be created in the service area. I know there are disputes about all this, but the evidence is pretty strong that at least people are working in the service sector.

I have two questions. He and a couple of other witnesses have suggested that government should look at offering incentive programs to the service sector, the same as it does for manufacturing, the resource sector and others. We should not treat it as a thing no one can figure out; there should be programs in place for the service sector.

Second, it seems to me that one of the problems we have in the service sector is quantifying the wealth the service sector creates. Albert Einstein created very little in the way of tangible goods. You can see the spinoffs from what he did, but what did Albert Einstein create? Yet you can extrapolate from what he did; it has created industries. It seems to me that one of the problems we may be facing economically is that if the service sector keeps its steady growth in terms of the percentage of the job market, one of the difficulties we have is quantifying the value added in a lot of the service sector because we are really geared towards an industrial economy. Our quantifications, the gross national product and so on, are all oriented towards units and everything else. Is there any consideration being given to how we might deal with either of those matters? I am curious to get your view on this.

Dr. Nininger: It is an excellent question. I have a couple of observations.

The federal government now has commissioned a major piece of work, which is almost finished, on trying to get the database. The statistics we have in Canada for the service sector are not nearly as good as those for manufacturing. Therefore, in order to make sensible policy, we have to understand the data much better. We are quite a way from doing that, but steps have been taken to try to look at the impact of service sector expenditures.

One thing I would mention, which I am sure you would agree with, is that a lot of the manufacturing people are not happy about separating manufacturing employment and service sector employment as two pots, because they say, I think correctly, many of the manufacturing jobs lead to service sector jobs. I think there is a big grey area in the middle of it.

Mr. McFadden: [inaudible] continue.

Dr. Nininger: Yes, and vice versa.

On a trip to southeast Asia before Christmas, I was struck by what some governments there are doing in the area of providing incentives for the service sector. I was specifically looking at tourism, which is a very important commodity for Ontario as well as an export for Ontario, when foreigners come to this province. If we look at tourism as a component of the service sector, we do not have a good idea of what the economic impact in that sector is of an expenditure and a development anywhere in the province.

We have just started a new tourism research centre within the conference board, in which your Ministry of Tourism and Recreation and small business is taking part, devoted specifically to looking at that sector of the economy and trying to make more sense out of how to analyse the impact that sector makes and how to get a database that allows for a better public policy on expenditures of dollars. Clearly, that area will continue to grow in terms of employment and wealth.

I have gone across the country in the past couple of months talking to provincial governments, and they are struck by the fact that we have a lot of

data analysis to look at the impact of policies on the manufacturing and resource sectors but we cannot do the same thing in tourism, as one example of that. The study that George did points out right at the start the importance of job creation in the service sector.

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Quite apart from looking at the economic impact, there is the whole area of training and development in that sector and providing opportunities for people in the service sector. It is only recently that policies have been coming into place in the whole area of manpower planning and training and development to provide a better infrastructure. That is taking place at the community colleges in this province, especially in a number of the service sectors--hospitality is one--to recognize it as an engine. We have not recognized it as the engine that it is to the same extent as manufacturing. That is being corrected, but slowly.

Dr. Frank: There is one thing I would like to add. I heard you talk about wealth and income. It is patently incorrect to think that the service sector does not have wealth associated with it. Wealth is a stock. I am providing a service; he is providing a service; you people provide services. There is a stock of wealth that is embodied in us as people, from which we earn an income. Many service employees are very highly paid people: doctors, lawyers, consultants, teachers, nurses--it goes on and on. The image of the service industry, though, has suffered to some extent from intellectual snobbery associated with focusing on it as low-paid--

Interjection.

Dr. Frank: --poor people, poorly educated and so on. The hallmark of the service sector is that it is like the manufacturing sector. There is a wide range of jobs with incomes spanning from very low to very high and people very poorly educated to very highly educated. This concept that somehow services do not create income and there is no wealth associated with them is just plain wrong. You do not get income out of thin air. It comes from wealth. There is a stock of an asset there somewhere that generates income; it is the people. We are not used to looking at it that way. We are looking at logs, iron ore in the ground or whatever as assets. But people are assets too, and that is why the service sector needs a little more clear thinking as to what it is that is creating income in that sector.

Mr. McFadden: There was an economic school around the time of the Industrial Revolution--called the physiocrats, as I recall--which argued that manufacturing did not create wealth; you had to grow it. If it was not grown, there was no wealth being created; so industry was somehow parasitic. Now we have passed that point--

Mr. Haggerty: In labour there is no profit.

Mr. Laughren: Listen to that Marxist outburst over there. I cannot cope with it.

Mr. McFadden: I was in a seminar recently, within the last year, debating whether service can create wealth. There were people who actually argued that it could not. I agree with your position that it does; it is just that it requires a conceptual breakthrough to understand it.

Interjections.

Mr. Foulds: I was actually not going to get on the track of the service sector and tourism, but I am intrigued that you are setting up the centre; that is a very good thing. I have been doing a series of studies of various sectors of the northwestern Ontario economy, and the amazing thing to me was that in the tourism sector there had been absolutely no serious studies done of either the market you would be appealing to or the product you could offer. It just amazed me.

We all talk about tourism--we all talk a good game; there is a lot of rhetoric--but there is very little serious study done. Until you do that, it seems to me you cannot start defining your packages of areas where you can grow. We are very lucky and fortunate, for example, that the Stratford and Shaw festivals happened to be located in two very densely populated areas where there were also a lot of tourists; that is one of the reasons they were successful, but they also generated additional things. Anyway, that is just a side track.

I wanted to ask you a couple of question for clarification. You indicate that you think there would be a levelling off in the auto industry starting in the middle of this year.

Dr. Frank: No, it has already started. In terms of sales of automobiles, we are forecasting a decline in total revenues from automobile sales in Canada. We are also forecasting a decline in exports of automobiles and virtually all of that goes to the United States, autos and parts, as you know.

Mr. Foulds: I jotted down a figure and I did not define it. Was that the decline in sales from 1.9 million to 1.5 million?

Dr. Frank: No, 1.09 million to 1.05 million; 40,000 units roughly.

Mr. Foulds: You also indicated that the employment growth was down; although unemployment may reduce, the actual employment growth is down.

Dr. Frank: Is slowing down.

Mr. Foulds: Is slowing down.

You indicated that inflation is up or could be going up. Do those three things indicate that there may be a levelling off in provincial revenues?

Dr. Frank: No. In the case of employment growth, provincial revenues are driven by personal income tax, corporate income tax and sales tax. As long as there is employment growth in the economy, there is income growth because every time a person gets a job he gets income. I would not expect that your income is not going to grow. It will not grow as--

Mr. Foulds: As much.

Dr. Frank: --rapidly as it has in the past. This is where I think, as people who are trying to put a budget together, you really have to look at this environment we are talking about out here a year from now. If we are right in this slowing down of the economy, unless you are able to watch that your expenditures do not start to pick up on you, you will find that your revenues are growing less rapidly than your expenses and you can figure out what that does. I think that is really the dilemma being faced here.

Mr. Foulds: Because there is a slowing down, what you are saying is that we have to be careful in terms of additional commitments, in terms of expenditures, and perhaps the $900,000 that the Treasurer recently announced is an unusual occurrence.

Mr. McFadden: It is $900 million.

Mr. Foulds: It is $900 million. I am sorry. It is late in the afternoon. I just lost three zeros somewhere.

Mr. Haggerty: Witnesses have appeared before the committee suggesting that one of the reasons for the uptrend in the inflationary rate, particularly in Ontario, is that wage increases have been much higher here in the government service sector and in the private sector. There have been studies done in the United States showing a slowdown in the economy based upon the fact that wage increases in the US have been well below ours, at about 2.5 per cent. They are saying that if you do not put the dollars into the hands of the consumer, he is not going to be buying. Have you done any studies in that particular area?

Dr. Frank: First of all, let us just talk about the source of this inflationary pickup. In the past year and a half, there has been a very significant devaluation of the Canadian dollar against non-North American currencies. It is very significant against the yen, pound, deutsche mark, French franc and so on. While we do trade a lot with the Americans, we do import products from these other countries and their prices have increased. So that is a major factor.

Second, there is also the indirect impact coming through the United States because of the devaluation of their currency. Ours basically has walked down with the American currency against these other currencies. So there is the exchange-rate-induced inflation. There is the other part I mentioned, which is the tight labour market, especially in the lower part of this province. It is not the case when you get up into, say, Sault Ste. Marie or Sudbury. We are not looking at tight labour markets there. It is very localized. I should not say it is localized, but it is in this part of the province, and that is leading to wage increases that are in excess of the rate of inflation. Whether that is good or bad is another matter, but what it does is start to feed on itself. We are starting to see that emerge and that is one reason we have this gradual uptick in inflation occurring.

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There is a third reason and that is that we do believe the oil price situation is not going to deteriorate any further. In other words, prices will not fall further and that we are on a steady if not upward trend. Last year, for example, I think our inflation rate would probably have been 4.5 per cent if it had not been for the collapse of oil prices.

Those are the three reasons we are talking about an increase in inflation.

Mr. Foulds: I have two quick questions. When I was first elected to this Legislature in 1971, the first throne speech that I heard was in 1972 and the words, and I quote them absolutely accurately, were that vigorous steps would have to be taken to combat the unconscionable rate of unemployment. Do you remember what the unconscionable rate of unemployment was in 1972 in Ontario?

Dr. Frank: Four per cent?

Mr. Foulds: It was 4.1 per cent. Right on. You are saying we have virtually full employment with 6.5 per cent in some parts.

Dr. Frank: In some parts of this province.

Mr. Foulds: Does that mean in parts like northern Ontario you will have continuing very high unemployment, double-digit stuff?

Dr. Frank: Yes, it could be as high as that in some parts of the province. I am not familiar with the regional breakdown but it would not surprise me at all to find 10 per cent in some parts of this province and four per cent in other parts.

Mr. Poirier: Including the far eastern part.

Mr. Partington: It seems one of the ways the two upper levels of government are trying to go after the budget is by passing on an increasing share of the burden to the municipal taxpayer. What we see at that level was indicated this past year by five per cent transfer payments and a 7.9 per cent increase in expenditures at the municipal level. So you have home ownership, which is probably the only form of savings in our society that is taxed, and second, the tax rate is going up at maybe double the inflation rate.

The home owners and those who own rental properties--not so much rental properties--are paying with after-tax dollars. It puts a double whammy on them. I am just wondering if you have ever studied that and the long-term effects that might have on our ability to house people as they should be housed, perhaps an effect on the economy, and whether in fact you think the continuation of that is fair taxation?

Dr. Frank: We have not studied that issue and I cannot give you a good sense on it, except that I thought I heard you say that home ownership was taxed.

Mr. Partington: Yes, it is.

Dr. Frank: That savings in home ownership was taxed.

Mr. Partington: If I have $100,000 in the bank, the capital is not taxed. If I have it in a house, it is taxed by property tax.

Dr. Frank: Yes, but your capital gain is not taxed and that is where the savings actually come.

Mr. Partington: When you are a brand-new home buyer that really does not have much application.

Mr. Ashe: That is for services. That is not tax.

Interjection: You are talking about real property tax.

Mr. Partington: Sure, it is a tax.

Mr. Ashe: It is for services.

Mr. Partington: I will debate that with you later. Anyway, that was the question.

Dr. Frank: No, we have not done any research on that.

Mr. Ramsay: In regard to the current account deficit on the services side, what per cent of that would be involved with the insurance industry, and probably specifically the reinsurance?

Dr. Frank: I cannot tell you that. I could find that out, but I cannot tell you that off the top of my head.

Mr. Ramsay: Okay. I would appreciate that information.

Mr. Chairman: We would appreciate it if you could get back to us with that.

Dr. Nininger: Mr. Chairman, I would just like to say that we do turn out an awful lot of research in a variety of areas of trade and now the tourism industry. Some of the work we have been doing in our international research area is the competitiveness of our corporate tax structure. I would leave you with it--I think you have a copy of it there--because it does look into the competitiveness of five important industries in Canada. As you deliberate these, and you mentioned steel as one of them, I think you would find some useful information in there with respect to the steel industry.

If you would like us to appear at another time when you are talking about those kinds of things, we would be happy to do that. At least you have the information now, the work has been done, and we would be pleased to do that at a later time.

Mr. Chairman: I would appreciate that very much and perhaps from time to time, if you have something you feel would be of assistance to us, you could bring it to our attention.

Mr. Taylor: Are all of your predictions premised on the current situation in trade patterns with the United States, without reference to what might happen in terms of the trade talks and increasing protectionism?

Dr. Frank: Yes.

Dr. Nininger: Whatever happens there, it would be hard to forecast that in the next year or two in any event. We assume the current ground rules are in place.

Mr. Chairman: I read in the media today that you or the economic council are doing a region-by-region cost analysis of free trade.

Dr. Nininger: It is not us.

Mr. McFadden: There was one answer to a question that disturbed me. I forget whose question it was. Regarding the slowdown in the economy, you mentioned the danger we run here is that if our revenues perhaps do not drop but flatten out and our spending takes off, if that were to happen in Ontario, presumably it would have some major effects on federal revenue as well, I have to assume. We talked about levels of debt. Earlier you said it would have an effect on our creditworthiness or our credit rating and so on.

Do you have any feeling as to what level of debt would be a warning sign for Ontario? We went through this about a year and a half ago. Maybe it is $2 billion or $2.2 billion and it goes up and down. I am curious to know whether

you have any objective assessment that we should be worried about. I take it your suggestion is that it is strictly situational; whatever happens at the time, the market makes a judgement.

Dr. Frank: No. Probably the best way to get a handle on that would be to have someone from the bond rating services give you a review of how they go about rating your provincial bonds. In the summer of 1985, I believe, Standard and Poor's put Ontario on a credit watch, was it?

Interjection: Yes.

Dr. Frank: It was just after Mr. Nixon's first budget.

Mr. Foulds: No. It was before that; it was during the last budget of the Conservatives.

Dr. Frank: Then that credit watch was removed when oil prices fell and the reason they rationalized that was twofold: the decline in oil prices was a good thing for Ontario because it was a consuming province, real income was growing rapidly, and the economy was performing very well here in the province; so the credit watch was removed.

If you bring in someone from a credit rating service--you have Dominion Bond Rating Service, Standard and Poor's and--

Interjection: Moody's.

Dr. Frank: Moody's. Any one of those three companies would be able to walk you through and show you the kinds of things it looks at in giving a rating. You can easily get information that shows you how your ratings are usually correlated with the interest you pay to borrow, and that is where the linkage, as I said earlier, comes in.

Ontario and Alberta, I believe, are the only two provinces with triple-A ratings in Canada. Markets at this stage are saying these provinces are good credit risks. Clearly, if the situation reversed and you started to see that credit rating decline, you would move into the area where the deficit is starting to be perceived by potential lenders as a problem for you, not only for servicing but, of course, in paying it back.

Mr. Foulds: It demonstrates something you said earlier. It is more important for a province to have a high credit rating than it is for the federal government--

Dr. Frank: Sure.

Mr. Foulds: --because of not being able to print money, which you talked about earlier.

Dr. Nininger: Plus the degree of offshore borrowing, foreign borrowing.

Mr. Foulds: It is a major factor there. If you can borrow internally, then it is not nearly as bad.

Dr. Nininger: Yes.

Mr. Chairman: In our economic review, on pages 67 and 68, there are some charts showing what is happening in all the provinces with Standard and Poor's, Moody's and the Dominion Bond Rating Services. We seem to be doing very well.

Dr. Nininger: It is something to monitor very closely.

Mr. McFadden: That is my concern; it could deteriorate within a couple of years.

Dr. Nininger: Sure. I would think that when the Treasurer puts together a budget, those things will be taken into account, as to how all that balances out in terms of what they want to do with the budget.

Mr. Foulds: In Saskatchewan, it has been a disaster for three years.

Mr. Chairman: Any other questions or comments? Gentlemen, obviously you have attracted our attention and you have raised a number of points that we will have to take into account. You have also refreshed us a little on some basic economic theory that is sometimes a little difficult to grasp and understand, and we appreciate that.

Mr. Foulds: You have refreshed and instructed some of us.

Mr. Chairman: Dr. Frank, you have been a teacher, I presume. You explained it extremely well. Thank you.

The committee adjourned at 3:42 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

WEDNESDAY, MARCH 25, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
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Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
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Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

Dryden, K., Former Ontario Youth Commissioner

From the Association of Canadian Distillers:
Campbell, K. M., President
Coe, D., President, Hiram Walker Brands Ltd.
McNaughton, D., Chairman

From the Board of Trade of Metropolitan Toronto:
Hall, G. E., Chairman, Taxation Committee; Manager, Taxation, Hudson's Bay Co.
Robertson, R., Vice-Chairman, Taxation Committee; Partner, McCarthy and McCarthy
Markham, C. I., Chairman, Pension Policy Committee; Partner, Peat Marwick
Han, S., Member, Economic Policy Committee; Regional Economist, Canadian Imperial Bank of Commerce
Bursey, J. H., Member, International Trade Committee; President, Bursey International Consultants
Robinson, R. B., Chairman, Education Committee; President, Abt Associates of Canada

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, March 25, 1987

The committee met at 9:07 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: Perhaps we can get started. Members of the committee will note that we have a fairly hefty schedule this morning. I will run through it very quickly.

Mr. Dryden will be our first witness. As the former Ontario youth commissioner, he will be speaking to his report, which was distributed as exhibit 70 and is summarized on page 46 of your summary book.

He is followed by the Association of Canadian Distillers, whose brief is exhibit 72 and is summarized on page 48 of your summary.

There follows the Board of Trade of Metropolitan Toronto, which has two exhibits, exhibit 55, the basic exhibit, and exhibit 69, its exhibit dealing specifically with the matters of education raised in the service sector report. They are summarized on pages 1 and 3 respectively of your book.

At 11:30 a.m., the United Steelworkers of America was slated to appear, but it has cancelled.

At two o'clock, the Automotive Parts Manufacturers' Association of Canada is slated to appear. That is tenative, and they have not given us a brief.

At 2:45 p.m., the Canadian Life and Health Insurance Association Inc. is appearing. They distributed exhibit 54. That is summarized on page 7 of your briefing book.

If you do not have exhibits with you, but wish to make reference to them, it is suggested that you perhaps contact your office and have them sent down.

With that brief introduction as to the day, I welcome Mr. Dryden, youth commissioner for the province. We appreciate your coming and speaking with us this morning. We specifically invited you because of the interest that committee members had in your report and your comments, particularly of course about youth unemployment. I do not know whether you wish to make some opening comments. Thereafter, perhaps you would entertain some questions.

KEN DRYDEN

Mr. Dryden: Thank you for the invitation. As you may know, I was youth commissioner for a period of about two and a half years and had the opportunity in the last couple of months to try to put together some of the impressions and lessons of those two and a half years into a report.

The report, as you may know, makes just two recommendations at the end.

One relates to unemployment, and the other relates to education. It was purposely done that way because I guess I felt that putting together a catalogue of things would create the impression of it being a blueprint.

I am not sure that blueprints exist for essentially anything, certainly not for employment policy; but at the same time, I am not sure that blueprints are always necessary. What is critical is a sense of a destination of where it is you want to go and what the basic values are in a society. With setting that destination, then there are a variety of different paths that can be taken to get there; but the critical thing is to realize the situation and to have a destination--to have a goal of what it is you want to do with what you are doing.

I guess, in part, the report came out of a very strong sense that we do not have a destination, that we have some basic public acceptance; and I think it does exist in that if you did go down Yonge Street or other streets in the province and asked people what they valued, what was kind of a basic understanding in this province as it relates to employment, they would say, "Well, we think people who want to work and who are able to work should be able to work and should be able to have a job."

We are improving in that regard, but we are still a significant distance from that. As I read the situation, the collective impact of all of the policies and the programs we have in place will not produce that result, and it is with this mismatch of expectation on the one side, reality on the other, and my assumption that you have a bridge in between, and that public policy represents that kind of bridge that we are falling into the middle and that the bridge does not span the gap.

It was my intention in the report to try to point that out as clearly as possible and to suggest that: "Look, are we serious, or are we not?" Does that value of employment exist any longer? If not, I think it is a difficult thing to admit, but it begs the next question of: "If not a job for people who want to work and who are able to work, then what? " What in its place, if that is no longer a fundamental goal in this society?

I guess it was out of a bit of frustration of dealing in the area and realizing that the end result of the work that was being done in a whole lot of different areas was not going to bridge the gap, it was out of that, really, the report was written, and with a strong intention to kind of look at each of the different policy and program areas, and say, "Here is what those things can do, but just as important, here is what they leave to be done." In the job creation area, the training area, education, as well as in the fiscal areas, this is what is being done, this is what is not being done, and are we serious about doing that much better with it.

My conclusions, basically in terms of a full-employment approach--and again, full employment, and I realize the difficulties at times of definitions, but I have always approached full employment as a definitive term by the words that it suggests, and not by a notion of the nonaccelerating inflation rate of unemployment and things like that that do not relate to the individual. A full-employment level is somewhere--the guess is three per cent or four per cent rather than 6.5 per cent to eight per cent, as some of the other definitions would suggest.

It is important to set a standard, to set a goal and to express that goal, and it is far more than a gesture to express a goal. It is only by setting the destination and setting the goal that you start to think in terms

of what you are not doing, rather than measuring everything in terms of the amount of money that is being spent and the 10,000 kids that are helped here or whatever. Focusing there is to focus on what you have yet to do and to try to get like-thinking people to consider things that can also be done by those who do not necessarily deal in the area directly.

The phrase I use in the report is "coattails." You never have enough money. You never have enough programs and policies in place, directed at a particular problem, to solve that particular problem. You need coattails, and especially in an area like unemployment. There is not the money. There are not the programs that are going to produce it unless you have coattails out there, so that people not directly involved with the problem, governmentally particularly, can also do their part in it.

It seems to me that unless and until you set that kind of destination, what will happen is that there will be a little better of this and a little bit more of that, but with essentially very little change in the particular result. Now, again, the results in Ontario have been significantly better than they have been in the rest of the country. But, if we are looking to make an impact on that which is yet to be done, I think that it is important to focus on a goal, as opposed to the goal always being just a little bit more in the next budget.

The report also deals with education. I do not know whether we want to go into that at this particular moment. Perhaps it is better now just to leave it open to comments and questions.

Mr. McFadden: I know that your report certainly raised a lot of questions. I was actually going to head into education so I must let you carry on, but I am curious to note this. You hear a lot of reasons for youth unemployment, and I know the unemployment level among youth is noticeably higher. For example, in Toronto you might have statistically what economists would call virtually full employment, but you typically still have a higher than the three per cent or four per cent unemployment rate among young people in Toronto. So, even with these percentages you still do not always resolve the problem in each group.

Now, with regard to the students, one of the things that you mentioned in your report was the high drop-out rate through the high school system. I think your figure--was it 40 per cent of the kids who basically start high school sucessfully graduate? Was that your figure?

Mr. Dryden: No, I think it is 60 per cent graduate from grade 12, and somewhere around 25 per cent from grade 13.

Mr. McFadden: Okay, it is a 40 per cent drop-out rate, so I had the figures mixed up. How would that compare with other jurisdictions, either in Canada or in other parts of the world?

Mr. Dryden: I do not know specifically in terms of the other provinces. The only figures that I really have are US ones and, nationally, they are roughly--and again, you can appreciate the rough nature of figures--somewhere about 75-25. The estimate is that about 75 per cent graduate from high school and 25 per cent do not.

What I should also say is that, in the last year or year and a half, there has been considerable attention paid to that particular figure, with a lot of comment--

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Mr. Haggerty: That is on the American side.

Mr. Dryden: That is right, yes, on the American side--in magazine and newspaper articles, and the beginnings of responses by state Legislatures about that. Again, the principal message is that this is unsatisfactory, that we simply have to do significantly better in this area.

In terms of the other provinces, I do not know. When you get to international figures, sometimes it can be a little bit hard to make the direct correlations because the systems work in very different kinds of ways. The English system will end in a very different way than ours will and at a different age group. In West Germany, the formal education, the gymnasium, will end at 16 but, as I recall, a fairly similar percentage to what happens in Ontario will go on into a post-secondary stream. They have the technical route as well, and a very high percentage of those students will go on for two more years in that particular area.

It is hard to make direct comparisons in that way. I think--and I tried to point it out in the report--that the German example is an important one in that way. While the formal high school will end at a certain age, the provision of the additional two years and its popularity represents something very important. In effect, the end result is that a very high percentage of students--and I am trying to remember the figures, they may even be in the report--somewhere around 70 or 80 per cent, I believe, will be either in the post-secondary stream or in the technical stream. So up to the age of 18, they will be involved in productive education of one form or another. I think that is an interesting model. In terms of other figures, I do not have them.

Mr. McFadden: I guess the concern I had was the need, it seemed to me, to mesh the employment that is available with the educational skills the students have, at the same time with the goals that the young people have for themselves and the image they have of what they should be able to do with what they have.

One of the views that is current, of course, is that if you have a well-educated population and people receive training, they will, in the end, find work, gainful employment, and will be able to lead a productive life in terms of their own views as well as society's view.

Based on your work, do you think that education is not the only thing, in the sense that we could find ourselves in a situation where, in some areas of Ontario potentially, we could offer excellent education programs, the kids could come out of it and still not find employment. I guess the problem that we all have is how to deal with that kind of situation.

Mr. Dryden: I think that you are quite right; that there is a correlation between education and training, those two things, and work, but the correlation is not direct or absolute in any way. It certainly helps in a variety of ways and you can list them as well as I can.

Even in those areas you spoke of where employment opportunities are more limited and where there would be an even less direct correlation between training and jobs, I think what education and training provides is in many ways a sense of transportability, not only in terms of being able to use what you have directly into a job but also it gives you a sense that maybe you can live in a variety of different places as well.

What a better and more effective education and training system would do in those areas is, first, open up some opportunities in those areas, but what it would also do is give the kids who grow up in those areas a sense that, if they so choose, they can live somewhere else and find something somewhere else where more jobs are available. It is easy to talk in terms of, in the first instance, why do people not move to where employment opportunities exist and why do they stay where five years or eight years or 10 years from now, realistically, it is not going to be that much better?

In many ways, I think what happens is that people do not feel--there are a lot of reasons to stay at home anyway, but at the same time they do not feel as if they really have a choice, a real free choice of deciding to leave and go somewhere else. It is not a matter of somebody else choosing for you. You want to feel as if you have some measure of your own choice there and that comes from a sense you can go somewhere else and make it somewhere else.

I know in the last two years, in just travelling around the province, at various times I would go to parts of the north and it was like--I understand why people want to stay where they are, but next year or five years from now, chances are things are not going to be that much different. Why not consider moving?

I think in a lot of cases the reason is that people who will live in those areas feel intimidated by living somewhere else. It is feeling yourself a small fish going into a very big pond, not sure whether you can live and cope in Toronto and not sure whether you have the life skills to cope. I suspect that the better training and the higher level of education you get in that way, the greater sense of freedom, the greater expression of real choice will come from that.

Mr. Taylor: Self-confidence.

Mr. Dryden: I think it is very much part of that. It is self-confidence, and it is also having a key, a ticket, something you can take with you that is on a piece of paper and you can show to somebody somewhere else. If you do not have that, then there is a great reluctance and a great disincentive to move and to feel you really have a sense of choice.

It is a difficult thing, and the federal government is having that problem now through the Forget commission report and so on, creating the sense of forcing people out of certain areas and into other areas. What you should be able to do is create real choice. If that sort of redistribution happens, as it happens informally over time anyway, the way in which you do it is that you give the people of Cape Breton, Newfoundland or northern Ontario a sense that they can live somewhere else in the event they so choose. It seems to me that education and training are the absolute, central key to choice.

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Mr. Poirier: Having co-chaired, a few years back, some of this task force on school and work, I am intrigued by your--I mean, we can list very well reasons people should or must go, or the mobility of people. We are coming out of an age where the jobs went to you, and now you have to go to the jobs no matter where they are. Having heard so many people across northern Ontario saying, "I could not accept those contracts because I could not find the skilled people I need for my jobs," I think, in Ontario, 30,000 specialized jobs went without a taker two or three years ago.

You said they did not feel they had a choice. There are pros and cons about staying or moving, but you can still have the choice of deciding freely, by your own self, whether you are going to go to the job or wait until the job comes to you. I have a hard time trying to follow you when you say they do not feel they have a choice.

Mr. Dryden: I think kids in the north in particular have a double bind. The first bind is that, in some ways, there may seem to be less of an incentive for education, because where is it going to take them? Psychologically, there is a bit of a problem there. I do not know specifically drop-out levels and so on, but my impression is that they would be higher in the north than in southern Ontario.

If you are a kid who drops out in grade 10 or grade 11 and is living in northern Ontario, it seems to me that you are in the position of facing two very large obstacles to real free choice. One is that you feel southern Ontario is an area that is a little inaccessible to you. It is big. It is a little intimidating. You are 17 years old, 18 years old or 19 years old. You do not know if you fit in. You do not have the family infrastructure there. There is an obstacle in place there to keep you from moving or exercising a choice in the event it seems moving is the right thing to do.

The second obstacle is an educational obstacle. You say to yourself: "I go down to Toronto, Hamilton, London or Ottawa and I have grade 10 or grade 11. What do I have really that can get my foot in the door? Yes, I am in the position where I would like to exercise my choice to move to where the job happens to be, but I have these two obstacles in front of me."

The first obstacle is a tough one to remove and I am not sure you can ever quite remove it. The second obstacle you can have some impact on. It is out of the sense that, "Yes, it is intimidating, but I have something in my hand that perhaps can get me in the door and allow me to overcome my reluctance and exercise my choice in a reasonably free kind of way, or to exercise my choice in the other way"--just as you described--"of jobs that may be there, that do not have people with the skills to fill those jobs." Again, if you build up that kind of skill level to a certain degree, then you have people who are there to take those jobs.

Mr. Poirier: It seems young people in southern Ontario have a similar type of problem because when those northern employers could not find young people up north, they came to southern Ontario, and the southern young people would not go north to the jobs, so the employers even had to go outside of Canada.

Mr. Dryden: That happens, and there are a couple of reasons. One is that people considering a move in that particular direction worry about being trapped in some way. They feel more at home in southern Ontario. To them, northern Ontario is an area they probably have never been to and have grown up with the sense it is a pretty remote area. "I am just not sure whether I want to go up there and take that sort of job, because I am going to feel as if I am cut off in some sort of way, and whether I will have the opportunity to then go down at a future time to rejoin family and friends and live in a part of the province that I am more familiar with, whether that opportunity is still there." That is one obstacle to having the movement go in that direction.

Again, I do not know the nature of the jobs that were available. People who would be deciding to make that kind of move would be looking for something where they would feel there is a job for more than just a year or two, one

that offers some measure of opportunity. An awful lot of the jobs available to young people now, jobs not taken up, are jobs about which there is a strong sense they do not lead anywhere.

You can make the argument that with every job you do you learn something, that it makes you better prepared for the next job and so on. There is less of a sense now than there was 20, 30 and 40 years ago that the work you do, if you do it well, will lead on to the next thing that is higher, and that you can work your way from the bottom to the top, half way to the top or three quarters of the way to the top. There is more of a sense of slotting and kids understand that.

In some ways, it is an expression of rational behaviour to say to yourself: "I have had this job offered to me in the city of Toronto. It pays $4.50 an hour but it does not lead anywhere." There is something rational about saying: "I think I can do more. I certainly want to do more. Is it in my best interests to take that job today or wait until tomorrow, because I think I can do some other job that will pay better and offer some measure of opportunity and some measure of promotion down the line?" What is rational behaviour under those circumstances?

I would argue that in many cases really what it is, is you wait until tomorrow. Once you start waiting until tomorrow, you can get into a real bind of continually waiting until tomorrow and months pass. Then you have a real problem. In each individual day, if you make that decision, I am not sure you are making the rational decision under those circumstances. At the same time, you stay unemployed and the job that is available is unfilled.

Mr. McFadden: I have one brief question with regard to the selection of appropriate courses. I am our party's critic for the Ministry of Colleges and Universities and I have spent a lot of time going to different campuses and chatting with administrators, faculty and students. There seems to be quite a debate going on right now as to the appropriate government policy in terms of types of courses students should be taking for the future. There is now a big thrust on kids going to science and technology, that is is the key to the future and for employment in Ontario.

There is a very large body of opinion--it seems to me a growing body--that this may not be the right approach. I have talked to management consultants and personnel people as well as university people who argue that the thing that companies are most looking for are people who are adaptable, innovative and have an ability to analyse problems. Companies take the view--I am talking about the more progressive and better types of employer--that they will train people when they get there to fit into their company system. What they are looking for is a very energetic mind and the kind of a person who has proven that through the education system.

There is a bit of a tendency to downgrade the liberal arts because of this whole science and technology orientation. I am curious to know whether you have any view on this one way or the other, whether you think we should be putting particular stress on science and technology or whether you would go with the other view on the universities; namely, training people mentally, training them to think. I am curious to know what you think in terms of a strategy. I am not saying they are mutually exclusive.

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Mr. Dryden: This is a very personal opinion, and it emerges out of

nothing I have done in the last two and a half years, but it has been a bias I have held for 20 years. I am a great believer in the liberal arts tradition. I would basically accept the comment you made and the comment that increasingly comes from employers, that for the senior positions you want people who are adaptable, who have the capacity to change and who have a sufficiently broad background to be at home in a whole lot of different areas that come up when one is in a senior position. There are only so many senior positions around. There are an awful lot of jobs in the economy at any time that require a specific skill. If you do not have that kind of specific skill, you have a bit of a problem.

My view is that there is some kind of nonmutual exclusivity in there that you are really looking for. Possibly what has happened--I think it has happened--is that 20 or 30 years ago there was too much movement away from the sciences and technology and too much focus on the liberal arts. People could start to see the limitations of that and could see the developments of technology elsewhere. Then they raced to the latest angle, the latest thing. In essence, you exaggerate the problem to get your message across. When you get your message across, you say, "Maybe I got it across too well." Somewhere in there, what you are looking for is a reasonably broad education, but at certain points there is the opportunity, the need and the obligation to do things that will give you a little bit of a specific skill.

Again, that is what I tried to do in the report. If you try to predict the future, all you can really have is a sense that it is going to be a changing future. How do you adapt to change? If that is the central condition of the future, how do you build in things to allow you to cope and triumph with that central condition? What it means is a certain measure of adaptability. It is not a wholesale movement in the direction of learning a specific skill; perhaps it is learning that skill to some extent, but in the context of something broader that allows you, as the individual, to move around and that allows the companies that hire you to move you around.

Mr. Foulds: I am going to give you two quotes from your report. "How you understand unemployment effects how and with what will and urgency you choose to deal with it." Later you say, "There is always the near irresistible temptation to deflect the debate from what is necessary to what is practicable, from short term to long term, from employment to employability."

When you were youth commissioner you actually spanned two different governments, two different attitudes. Was there a difference in your perception of the way they treated unemployment? Did either of them look at full employment as a real possibility in your experience, or were they more into looking at training to provide employability?

Mr. Dryden: The way you decide to focus on full employment is through a government decision and is a very central decision that is taken. It is not one that is a matter of a Ministry of Skills Development or a cabinet committee like the Board of Industrial Leadership and Development. That is not what they are going to do. Neither of those ministries has the tools and without the tools you are not going to take it on.

What was characteristic of the two and a half years I spent, and in the area in which I spent it, was that each government wanted to do better than had been done before. The unemployment problem was more serious than it had been. More money was going to be spent. New, and one would hope, better programs were to be put into place. A very constructive development, I believed at the time, was the creation of a ministry whose specific priority

was training rather than funding training all over the government. Because it was in many different ministries whose mainstream priorities were something else, training essentially had been orphaned everywhere, with predictable results, with predictable problems of program, with predictable staff problems. You felt you were in the backwater. Like anybody who feels he is in the backwater for too long, it does not work. There is a real price that gets paid.

I would characterize the two years as attempts to do better within certain specific contexts. The context was job creation programs or training programs, a greater focus on the so-called disadvantaged. It was steps in that particular regard. Those are my personal experiences because that was the area in which I really worked.

Beyond that, I did not get a sense from either government that there was an expressed commitment to full employment. I think that full employment would be a phrase that would come up as parenthetically in a sentence. It would start out with, "Of course, we believe in full employment but," and then go on. It then gets lost in the message. It becomes a throwaway. It is, "Yes, of course, we believe in it," then you go on and make the point of a sentence, whatever the point happens to be.

To me, the parenthesis is wrong. If, of course, you do believe in that you do not put it in parenthesis; you put it with an exclamation mark at the end. That is the only way in which you make real gains in that area. It is in the nature of government or anything else. Those who are providing the product are selling the product. You sell what you are doing; you do not sell what you are not doing. Because you are being told on the other side that you are really not doing what you say you are doing, it makes you fight even harder, and you tend to happily forget or happily not notice those other things that you are not doing. You are selling and you are selling. "This is what we are doing, and we are spending this amount of money and we are hitting these kids." All that is great. I am glad you are spending that much money and glad you are hitting those kids, but just stop for a second, draw your own bottom line and let us see where you are as it relates to the problem.

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Mr. Foulds: I got the impression that you are marginally optimistic about the training programs and that the consolidation in the Ministry of Skills Development in Futures is at least a step in the right direction for that. I also got the impression that you are pessimistic about a commitment to full employment. How does a government, how does a population, how does a society get together the will to make a commitment to full employment? Is that possible in Ontario? I know it is possible in Sweden. I know it is possible in Japan, and I think Austria as well as West Germany have a commitment to that idea. What I wonder is how you achieve that because you probably need more of a commitment than just government. You need it from labour, you need it from--

Mr. Dryden: That is what I am suggesting in terms of the coattails. When I was looking at the kind of system that is in place in Sweden, I remember being extremely disappointed in a way. I was looking for the magical program. The magical program is not there. For two years, it was basically looking for magical programs, finding out what they are doing in British Columbia and what they are doing in Quebec and what they are doing in the US and what they are doing in Britain and in Germany and in Sweden. You find out there is not.

Basically, the approach taken in all those jurisdictions is very close to the same thing. They are almost interchangeable. What is not interchangeable is the extent to which you decide to have those programs and structures in place. It is the difference between having a nice model that is a pilot project and something that is not a pilot project but is a full scale program.

Even though the amounts of money spent here certainly are not at pilot project levels, as you compare the approach in this country to a country like Sweden perhaps, in a sense it is almost the difference between pilot and something else. It is basically a matter that a society accepts that a principal economic goal is full employment. You decide on policy and you implement programs to the extent that this goal is not being met. If you are doing better, you do less in that regard. If you are doing worse, you do more. But there is that kind of goal.

All the structures that are in place, the relationships, the structures that involve industry, labour and government and so on, are an offshoot of that understanding, of that kind of goal. They are not in place in the first instance without any kind of basic social understanding. The structures come from the understanding and not the reverse.

I would suggest that in this province and in this country, in terms of a public will, there has been a pretty substantial expression of that public will through public opinion polls and a variety of other ways to suggest that full employment or something that comes very close to approaching it is a goal in this province and that there is a consensus and that what is quite absent is any kind of political expression to that effect. I suggest that there is a public that is a lot closer to that, and it has arrived on its own, more than you might suggest.

Mr. Foulds: In other words, you are saying you feel, from your experience and the reading of the polls, that there is an opportunity for a government to use that base to mobilize around the--

Mr. Dryden: Yes, I believe that. There is also the fact that Ontario happens to be doing a whole lot better these days in terms of employment and unemployment. It becomes a more manageable thing to make those kinds of gains. This is not Newfoundland with a 20 per cent rate of unemployment. The irony of all this, of course, is that the closer you are to the goal that you want to get to, the harder you are willing to work at it, and the further away you are from it, the more reluctant you are to tackle it. We are a whole lot closer than we were a year ago and three or four years ago.

Again, I do not dispute the fact that all of it would represent a difficult process. I do not dispute that at all, and I do not dispute the fact that it is going to take some time to get there. What I am trying to stress is the fact that it is very important to try to get there. Just like any of the kinds of things that we do in our lives, we may not get there, but you sure as heck get a whole lot closer if you try, if you set it out as a target. If you do not set any kind of goals or targets, the only sure thing is that you are not going to get to that desirable result, but if you set it there and publicly express it, then you start thinking in those terms; not just you, but also all the others who have been affected and are affected by employment and unemployment.

In many ways, what it does is it starts calling a lot of bluffs. A lot of people have been on the sidelines and have felt very comfortable in saying

we should have this full employment policy. It sort of brings them out of the sidelines and says: "Are you really serious? Because if you are serious, it is not just a matter of government policy that is going to produce the result. You are going to have to be part of all of this as well." Again, with the coattails, you have some measure of collective process involved and a far better opportunity of making significant impacts.

Mr. Foulds: Is it possible--or do you have the experience--for the province to commit itself to a goal of full employment in northern Ontario? Actually, the initial part of your discussion with Mr. McFadden left me very pessimistic.

Mr. Dryden: I think what you do is you express as a province that that is a goal. It just means that you have to work harder and in different kinds of ways to achieve it, depending on the part of the province with which you are dealing.

Mr. Foulds: The choice you would offer northerners would not be merely the choice to move, but also, if there were a consensus, the choice to remain. Therefore, there would have to be the opportunity to remain.

Mr. Dryden: Absolutely. I was not trying to suggest earlier on that the moving vans hit the highways and that buses head from north to south; not at all. What I was trying to suggest was that, in a variety of different ways, what is important is that people have some measure of real choice in their own lives about where they live and real choice in terms of what kind of jobs they take. What I was trying to suggest in terms of northern Ontario was that, just as in southern Ontario, the choice is to stay where you are or the choice is to go somewhere else, but to make it into a real choice.

I am sure that just as you get movements from province to province and so on, depending on the economic circumstances in different provinces, that movement is going to continue. There will be some movement north and there is probably going to be more movement south, but again all of that emerging out of some measure of choice, rather than the sense that you are absolutely up against the wall or in the corner and effectively have no choice because there is only one direction in which to move.

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Mr. Foulds: May I have two quick questions on training?

Mr. Chairman: I have two other questioners, and we are running a little short.

Mr. Haggerty: I think the report is put together very well. Some of the questions and answers you have are very interesting. I was looking at "School to Work," where you suggest: "Students at age 16 could look for work or continue in school as present, or decide on a third course which would offer a combination of school and work, much like the German system, over a two-year period. The responsibility of the education system would extend to everyone 18 and under. Education would provide education/training to many...."

That paragraph is rather important because what you are saying is that the educational system has failed. Really, the cause of the dropout rate in, you might say, our elementary schools--it shows in the secondary school system--is that we have not programmed an educational system that will suit

the needs of this particular type of student. Am I correct that is what you are saying or what you are trying to convey?

Mr. Dryden: Yes.

Mr. Haggerty: That is perhaps where the changes should be made, in our elementary educational system. The classes may be too large, or perhaps right at the elementary level these particular students should be funnelled in the direction of the trades or the skills area instead of waiting until they get to grade 10. They drop out of high school and the next thing is that we have a makeshift program in the colleges to try to get them back into a retraining program hoping they are going to gain employment.

One of the problems is that they never felt secure in the public school system at the elementary school level. I suppose many of them thought they were not suited to the particular pattern of the school. Maybe that is where the government of the day should be looking at.

You mentioned co-operative training too. I think this is a rather good program. I suggest we should be taking a good, close look at the European style, particularly in the training of the skilled trades. They seem to be so far advanced, but the main thing is that in their system they can continue with education. Here, once the drop-out is out--

Mr. Chairman: Do you agree, Mr. Dryden?

Mr. Dryden: Yes. You brought up one thing, and I am glad you did, because there was a misunderstanding that came out of the report. That was the Toronto Star headline of the fact that I was urging that the school-leaving age be 18. That is neither what the report says nor what I believe. What I was trying to suggest was that the responsibility of the school board remain until age 18. There is a variety of different things young people can do until age 18, but the responsibility of the school board remains. Whether the young person stays in school, whether it is a measure of training or whatever the exact combination of things happens to be, that can be sorted out, but the focus is on the school system itself and its responsibility.

I had a very hard time with dropout rates. As I said in the report, it was my biggest shock and it was my lingering shock in the whole thing. The point I try to make, or what is at the root of all this, is that an education system is there. It is universal system; it is intended as a universal system. It is our way of preparing young people in Ontario for a future life and for future work. It is intended to apply to all young people.

The impact of the school system has come to be, and I guess has really been for a long period, that it produces the successful result in a comparatively small percentage of young people. To me, that is the message, but that is not right. This is supposed to be a universal system. It is supposed to prepare people--not 25 per cent, not 60 per cent, but 100 per cent of those students--for a future.

I just do not know that there is a clearer message to suggest that we go back to that original priniciple. What is it there for? If it is not meeting what it is there for, then surely the need is to try to see ways of how the other 75 per cent or the other 40 per cent, depending on what level you talk about, can be better prepared for a future.

How do you do it? Whether it is class sizes or different curriculum, I

do not know the mix of things. I know some of the areas you can certainly look into, but surely the principal point is to find a way of dealing with them and basically restating the goal of what an education system is there for.

Mr. Partington: Just a question, perhaps along a similar line. My past experience certainly has been that it is the carpenter who becomes the house builder and the electrician who becomes the electrical contractor. I guess the guy who started installing mufflers becomes the owner of a series of muffler dealerships. We have heard recently that General Motors has gone to Europe for tool and die makers. The carpenters' union here says we are going to be short of hundreds of carpenters.

Is it our whole attitude of government and education that has sort of written off a hands-on job, a lunch-bucket job, as being beneath the dignity of people? Is that what is hurting full employment? Do we have to change a pretty basic attitude in our society?

Mr. Dryden: I think that is part of it. It was one of the things I was trying to wrestle with in the report. I think, for that person who may have an interest in being a carpenter or may have an interest in being an electrician, and you think of the ways in which you get there in our society, and the kind of educational background and training courses and so on that are there in front of you in order to achieve that result, it is not a particularly attractive route to take. The visible route, the attractive route, the well-guideposted route is the route through colleges and universities. That is what teachers know about; that is what guidance counsellors know about; that is what parents know about; that is what employers know about; and that is what kids end up knowing about. There is that tried and true path, with the very nice-looking educational institution at the end of that path that will lead you on.

Where is that same sort of attractive route for the kid who may have an interest, some skills and the desire to pursue being a carpenter or an electrician? I would argue that in many ways it is a matter that if you fall out of the other system, maybe you can succeed in picking up a variety of different pieces and getting a job in that particular area, but it is hardly an attractive route.

Basically, again, it is for those kids who do not make it in the other stream, and you have to pick up the fragments here and there in order to achieve that kind of result. Kids are not stupid and their parents are not stupid in all of that. If you are a kid or a parent going through all that, which route are you going to take? You are going to take the college and educational route, to sit behind the desk and to do all of these sorts of things.

Unless and until you build up that other area, put some emphasis on it and make it seem as worth while as it is, then you can go around to kids, guidance counsellors and parents as much as you want and say, "This is desirable; this is really good; there are a lot of good jobs out there," and they are going to say: "Right. Thanks very much, but I am going to head the other route."

Mr. Chairman: I am afraid I am going to have to cut it off because we have run over time a little bit.

Mr. Dryden, I appreciate very much your coming and discussing this with us. It is obvious that you have a very passionate concern about the future of

youth in our society and whether or not they are going to have work. The concerns that you expressed, I am sure, will be considered very carefully by this committee. Thank you very much.

The next presentation will be from the Association of Canadian Distillers. We have three witnesses. Perhaps, gentlemen, you could come forward and take your places while Mr. Carrozza is passing out the presentation.

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Mr. Ramsay: Do these guys have samples this morning?

Mr. Chairman: That may be what it will take, because I think they have a particular position they want to make clear to us.

Mr. Poirier: Scratch and sniff.

Mr. Chairman: Scratch and sniff?

Mr. Ashe: I think they are going to tell us the level of taxation to their industry is too low.

Mr. Chairman: We have K. M. Campbell, president of the association, and Mr. McNaughton, the chairman of the association. I understand Mr. Coe, president of Hiram Walker Brands, is here as well. Perhaps, Mr. Campbell, if you could lead us through your presentation, that may well assist us in asking you some questions.

ASSOCIATION OF CANADIAN DISTILLERS

Mr. Campbell: I will do that in a brief way, if I can. There are a number of points I want to make as strongly as I can. As has already been suggested, some of them have to do with taxation, but not in the way suggested.

We know you understand that the Canadian distilling industry is very much an Ontario industry. It is very much centred in this province. More than half of all the production is in Ontario. We export almost half of that production, primarily to the United States, but also to other countries. Our raw materials do not come from the prairie provinces; they come from Ontario corn farmers. Then of course there are the other manufacturing inputs on a national basis. About 64 per cent of those originate in this province, so it is an Ontario industry.

We have been through the economic forecast that the committee is discussing. We have not attempted to critique the forecast paper in any great detail. Actually, we agree with what is said there and the assumptions that are made, but we want to put our industry in context with the forecast.

First, I thought we should look at the export outlook for our industry, since it is such an important part of our operations and obviously an important thing for Ontario's economy. At present, some 95 per cent of our exports go to the US. We have a natural advantage in what is existing in that market right now, in that Canadian whisky, as distinct from the other whiskys, fits the trend that is under way throughout North America for lighter products. We are now the leading whisky category in that market.

Nevertheless, we have to be sensitive to what the US does in terms of

taxation, because our products are price-sensitive and our growth there depends on its tax policies. Of course, we have seen, as I will mention in a few moments, what happens to the sales of our products when prices run amok. We have seen it in this market. We are in favour, generally, of the free trade initiatives between Canada and the US, and we see some long-term advantages for us, particularly in the removal of tariffs.

Another market worth mentioning is Japan, because it has such a huge potential. They have a tax system which is very discriminatory against imports, and we have been participating in a multinational initiative to have that changed. There is reason to think we might be successful. As you know, they have very strong economy. If we can crack this taxation system, then we have got great potential for new sales in that market, and of course a good part of those will come from Ontario.

Probably the most important point we want to make is that in Canada, with the economic recovery from the recession having been under way for some years now, we would have expected a return to a modest growth line in our products. This is not what has been happening. On the contrary, in Canada as a whole we have been down since the recovery began. You can see the rates there of six per cent, two per cent and four per cent in each of three years. There is a slightly better performance for Ontario, but still a steady decline in this period of growth.

There have been some other things that worked in that, but there is no question that the federal and provincial tax increases and the higher rates of tax and markup have been the cause of those declines and have been the cause of the failure of our industry's volumes to recover during the economic recovery. On a national basis we are down 22 per cent since 1981, when our sales peaked in Canada. This has meant that we have had to close distilleries, most of them in other provinces, but a couple in this one as well. The remaining ones are operating at less than 50 per cent capacity which, in anybody's economic terms, is scandalous. We have lost about 15 per cent of the jobs in the industry.

It is worth noting too, and the committee should be aware, that the huge price differentials between Canada and the United States are causing smuggling to take place from the US. This is not a small problem. We have been in touch with the Royal Canadian Mounted Police on this. On the basis of the work they have done and the apprehensions they have made, they estimate we are losing at least one million cases a year in sales in this way. In other words, there are at least one million cases coming across the border by organized smuggling. We are not talking about the people who bring their allowance back, and this is occurring too. Very few people do not bring it now because of the price differential. We are talking about organized smuggling in large amounts. Neither of the levels of government realizes any revenue from that product.

Mr. Poirier: Who does the smuggling?

Mr. Campbell: Who does it? I guess if we knew the individuals, they would not be doing it.

Mr. Poirier: Individuals, groups, hotels or what?

Mr. Campbell: The RCMP says that it is organized but it is not the organized crime; however, it is done in an organized way. Basically, they are a lot of small people. For example, some of it comes across in household moving trucks. The RCMP has apprehended some with 10 or 12 cases slung under a

flat-deck truck. There are all kinds of commercial loads where there will be a number of cases inside the load, obviously trying to avoid inspection.

Mr. Partington: There was an example last year of somebody who sank a yacht by trying to smuggle tremendous loads of beer across Lake Erie.

Mr. Campbell: That boat has never appeared.

Mr. Laughren: The entrepreneurial spirit burns brightly.

Mr. Chairman: As an example, would it be rye that we would sell into the United States, that would be purchased there and smuggled back to Canada because of the tax difference?

Mr. Campbell: Yes, some of it is Canadian-made product, but a great deal of it is not. It can be anything. A lot of this is bought legally in the United States. The boat you mentioned had been seen loading up with legally purchased product but, of course, the illegal part is avoiding the import duties and the taxes in Canada.

Mr. Haggerty: Why should you buy in Ontario when you can buy a case of beer over there for about $8 right out of the store? It would cost you about $20 here.

Mr. Laughren: It is just encouraging initiative.

Mr. Chairman: Mr. Coe had a comment.

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Mr. Coe: Yes, I have a comment. It is an interesting form of trade, because people could tell us that it is a reversal of an historic trade pattern between Canada and the United States.

The smuggling that is occurring now is a reflection of the difference in price and the number of border crossings--65 million border crossings along the longest, unguarded border in the world, and unguarded in the sense that even though we have customs officers-- We have a letter on file from Canada Customs that says it estimates its seizures are less than one per cent of the total number of people who are bringing over a product. It records only actual seizures of over one case, so we are not talking about what I referred to as casual importation, such as the Canadian who crosses into Detroit or crosses over into Buffalo or Niagara Falls and fills up his tank with gas--

Mr. Haggerty: It does not happen in Fort Erie, I know that.

Mr. Coe: No. I am sure it does not.

Mr. Ashe: That is actually the worst spot, as I understand it.

Mr. Chairman: We have interrupted, in any event.

Mr. Ashe: Led by the local member.

Mr. Chairman: Mr. Campbell, carry on.

Mr. Campbell: Let us discuss for a moment the alcohol beverages in Ontario's total tax picture. Alcohol beverages, beer, wine and spirits,

produce four per cent of the provincial budgetary revenues. There is an additional one per cent with the sales tax. So five per cent of the revenues come from what is relatively a small industry, alcohol beverages. This amounted to $1.2 billion in fiscal 1985-86 and was projected in the year just finished to be $1.3 billion.

The Treasurer (Mr. Nixon) had to revise his expectations from this sector by $35 million downward because of this decline in distilled spirits. In other words, the government was anticipating that the economic recovery in the growth that was taking place would result in a turnaround in our sales, and it has not done that. Out of $1.3 billion, $35 million does not look like a lot. In terms of spending, the estimate of $35 million is significant.

It is also important to realize that spirits, the sector that we represent, is overtaxed relative to the competing beverages, beer and wine. For example, 34 per cent of the alcohol consumed in the province is consumed in spirits, but it is taxed 53 per cent of the revenues; whereas beer, which has the bulk of the alcohol, pays only 28 per cent of the revenues. Wine is more in balance--12 per cent of the consumption and 18 per cent of the revenue. Again, there is an anomaly there in that the imported wine is taxed double what the domestic Ontario wine is. We can go into the reasons for that if you like.

The reason that spirits is taxed so much more highly than the others is that it starts at the federal level. You will see the relative rates of tax of excise. Then that is marked up by the 15 per cent federal sales tax, which is only 12 per cent for beer. Then the province marks up our products at 110 per cent, beer at 21 per cent, Ontario wine at 58 per cent and imported wine at 123 per cent. The provincial sales tax at 12 per cent, which is higher for alcohol than for anything else, is on top of all that.

The federal excise rates have increased by 63 per cent since 1981, and the federal sales tax rate has gone up from 12 per cent to 15 per cent. Now 83 per cent of the retail price of a bottle of spirits is taxes, so the result has clearly been that 22 per cent decline in sales. In Ontario, it is only 18 per cent but, as I say, this less bad performance is still very serious, especially in the face of the economic recovery in Ontario.

What has happened is that classic diminishing returns have set in for Ontario revenues. It is not just Ontario, but also the other provinces that are experiencing it. It is a classic case of diminishing returns. What we want you to conclude is that more realistic taxation, in the end, would produce more revenue for the province with respect to spirits.

The federal budget, for the first time in a good many years, certainly since 1981 but even before that, did not raise taxes on alcoholic beverages this past February. This is an opportunity for the provinces to permit at least some price stability to occur in our products so that the slide in sales can be halted. We are convinced, and we have an economic model that can show it, that an actual price reduction would turn this decline around and start a growth pattern that would produce more revenue. We can show that.

Our central message to you is that this is an opportunity to do something about the discrimination that takes place against alcohol beverages in general, but spirits in particular, give the tax increase system a rest, and permit our prices to stabilize and therefore our volumes to recover. Of course, this has significant economic importance for our industry and

therefore for Ontario, but it also has direct and significant results for direct revenue for the province from that source.

The other issue we want to bring to you is the Ontario Assessment Act. As you know, that act sets out the rate for business taxes and is another of the more blatant parts of the litany of discrimination against distilled spirits. Our members have to pay 140 per cent of their assessment rate for business tax. The next highest is 75 per cent for brewers. Wineries are assessed at 60 per cent. There is absolutely no reason there should be any difference.

Mr. Haggerty: Have you ever appealed it?

Mr. Campbell: Yes, we have appealed it many times over 80 years. It has been there that long. We finally made a breakthrough in 1986 and the Treasurer asked us to bring it to the standing committee on general government, which we did. That committee proposed an amendment to the act to bring our rate down to 75 per cent. It failed by the vote of the chairman, but really because the government was concerned about making that change without having the municipalities affected prepared for it. Each of the parties was strongly in favour of the change. The government and both opposition parties spoke very strongly in favour of it. We now have a commitment from the Treasurer that it will be changed in 1987.

Our message to you is, please see that it is done early, for one obvious reason: We are afraid of something ending up in Orders and Notices when an election is called. We hope there is a way for this commitment to be carried out as early as possible in the new session so that 1987 does not go by without the chance to change it when the will to change it is there on all sides.

Mr. Chairman: They can always re-elect the government.

Mr. Taylor: That will not happen.

Interjections.

Mr. Chairman: I am sorry; I should not have said that. I am the chairman of the meeting.

Mr. Haggerty: On the local municipal assessment, are wineries placed in the same category as spirits?

Mr. Campbell: No, only spirits. Incidentally, that applies not only to the distillery but also to the company sales offices and everything else that it operates, even though there may not be a still on the property.

Mr. Haggerty: What loss in revenue would there be then?

Mr. Chairman: I was recognizing you and putting your name down, Mr. Haggerty. Perhaps we could let Mr. Campbell finish.

Mr. Campbell: In conclusion, we emphasize that this industry is an important part of Ontario's manufacturing sector. It is an important revenue source for the province and is treated excessively in that respect in regard to its competitors. We now urge the committee to have the government reassess its strategy for the industry in the interests both of the people who depend

on it and the government's revenue objectives.

That is the message we would like to bring to you today.

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Mr. Chairman: I have questions from Mr. Laughren, Mr. Taylor, Mr. Haggerty, Mr. Poirier, Mr. McFadden and Mr. Partington. Everyone please be brief.

Mr. Laughren: I will try. I come at this as one whose only beverage I ever met I did not like was rum, so I am not against what you produce.

Mr. Taylor: Demon rum.

Mr. Laughren: I do not even like Cuban rum. I am opposed to what you present in your brief. We all understand what elasticity of demand is all about, particularly if you are in the distillery business or the tobacco business. You understand about elasticity of demand and the lack of it in distilled beverages.

It seems to me that any government has a right, if not an obligation, to tax the distillers to the maximum they can absorb, if you will, because I think it is commonly known the costs borne by society by the product you produce. As I say, I am not opposed to the product you produce; I am a big fan. At the same time, I appreciate the fact that I expect it to pay its way through taxes. The court is out on whether it even does at this point.

I wonder whether you are going to have much luck with your pitch. I understand it, and if I was sitting where you are I would be making the same pitch, but at the same time I understand why you may not get a very sympathetic ear from any level of government.

Mr. Campbell: I think you are helping us with the pitch because you said it should be taxed to the limit it can stand.

Mr. Laughren: No, I said product.

Mr. Campbell: Our very point is that it is being taxed beyond that limit. I think you said that spirits were priced inelastically. That is not true. They are quite price-elastic. The evidence is here.

Mr. Laughren: This is not the only evidence there is.

Mr. Campbell: I will take you over to the University of Toronto and you can talk to the economists there and they will show you that it is. I can show you reports where the head of the department of economics has shown it is. Anyway, it is price-elastic and this is the evidence. Having said that, assuming what you are saying about the social costs is correct, and there is argument there as well, why would spirits be taxed three times the rate of beer or wine?

Mr. Laughren: I do not think it is fair for you to campaign for increased taxes for your competition.

Mr. Campbell: But we are not. Thank you for saying that, too.

Mr. Laughren: Oh, I thought you were.

Mr. Campbell: What we are asking for is the same rate that they enjoy.

Mr. Laughren: You do not want them to have the rate you enjoy.

Mr. Campbell: No, who would want that rate.

Mr. Laughren: I was just giving you that option; that is all.

Mr. Campbell: That is the government's option.

Mr. Laughren: That is right.

Mr. Taylor: I appreciate the punitive taxation that is taking place.

Mr. Laughren: But you did not change it, did you?

Mr. Taylor: No, as a matter of fact I was not in a position to change it.

Mr. Laughren: No, that is right. You were just in the cabinet.

Mr. Taylor: If it is as evil as the tax system would indicate, then it should be outlawed.

Mr. Laughren: Shame; that is disgusting.

Mr. Taylor: Just hearing of your drinking habits, I can understand why it would never be outlawed.

Mr. Laughren: That is ridiculous.

Mr. Taylor: Anyway, I was interested in your, I am going to use the word "embracement" of the free trade concept. You are inclined, presumably, to think that it would be a good thing in terms of securing the United States market. What level of taxation would be necessary in terms of reform to enable you to compete successfully in your industry? I am just wondering what your recommendation is in terms of tax reform as it relates to your industry. One is real property taxation and business tax as a percentage of real property tax. You made your point there and I understand you have a commitment from the government. I am more interested in the other form of taxation.

Mr. Campbell: You are right in drawing the point that to the extent our market is reduced here and our economic strength in our home market is reduced, that inhibits our ability to compete in export markets.

As to a level of taxation in Canada that would correct that situation so we would be more competitive in the United States, I do not have a specific figure, but as has been suggested over here already, if we could have the same rate of taxation as beer or wine, we would certainly be in a healthy position in this country. So would the province's revenues, by the way, and there would not be any more alcoholism than there is now because there would be a shift from the other alcoholic beverages, which contain just as much alcohol as ours.

We are not taxing what we export. To that extent, the Canadian taxes do not inhibit us. But to the extent that our industry is debilitated by

inefficiencies, underutilization of our capacity and so on, because of the 22 per cent decline in the Canadian market, that does affect our ability to compete in the export market.

Mr. Poirier: With the volume of exports that you have outside Canada, what is the taxation like? Is it taxed the same as the domestic consumption or do they remove the taxes? How does it work?

Mr. Campbell: There are no federal excise or provincial taxes on what we export, but those products attract taxes in the export market, the same as the domestic products. We are talking US. In Japan it is different. In the US our products pay the same taxes as domestic products do, but the total taxes in the US represent under 50 per cent of the retail price, compared to 83 per cent in Canada.

Mr. Poirier: I see. Using your words, "the shocking price increases in taxation since 1981," obviously the cost of the distilled products has an effect on consumption, but it may not be the only cause of reduced consumption. Would you be able to entertain us pertaining to what the other causes may be and what percentage of the reduction in consumption of distilled products may be affected by the cost increase?

Mr. Campbell: We mention in the brief that there are some so-called lifestyle changes at work. There is a tendency towards perceived lighter drinks; lighter in alcohol, lighter in taste. There is less drinking per capita taking place. The drinking-and-driving thing has affected people's drinking habits and driving habits. The best way of comparing the two is again with the United States market, where those same things have been occurring over the same period as they have in Canada. The only difference between our two markets is that theirs has not been getting the tax increases.

Their spirits market, in the same period that ours declined by 22 per cent in Canada and 18 per cent in Ontario, fell five per cent. That is a measure of what these other influences are having, about five points out of 20.

Mr. Poirier: But in the United States they have not had the kinds of campaigns we have had in Ontario, for example, or have they? Have they met with that kind of success?

Mr. Campbell: Oh, absolutely. The drinking-and-driving campaign started in the United States.

Mr. Poirier: So the police forces in the United States would be as strict as the Ontario police forces.

Mr. Campbell: Even more so. The liability of the servers in the United States is much higher than here.

Mr. Poirier: So we can compare the phenomenon both in the United States and Canada.

Mr. Campbell: No question about it.

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Mr. McFadden: I have a couple of questions for you. First, you talked about the trend line that so far has led to a drop in recent years of total consumption of alcohol. If you were to receive a tax decrease, which I

gather is what you are really suggesting, do you believe that would lead to an increase in the total consumption of alcohol because people who are not now drinking would shift to liquors, or are you suggesting what we would be doing essentially is that people would shift from drinking beer to drinking gin or scotch? Is that what you are anticipating will happen?

Mr. Campbell: That would be the primary effect. There may be some total increase, but as to the thought that we might go back to the levels of 1981, when alcohol consumption peaked in this country, in this province, there is no expectation of that. The primary effect would be a shift, probably from beer and wine.

Mr. Taylor: A statistical increase anyway because of smuggling.

Mr. Campbell: Sure, if we are able to eliminate the smuggling, which is a good point and an interesting one. Where we show a 22 per cent decline in sales, those are recorded sales, official sales through the liquor boards. The smuggled product of course does not show up.

Interjection.

Mr. McFadden: If you were to get these concessions and consumption rose, where do you expect the people to come from? Are they going to stop purchasing imported wine to buy domestically produced spirits? Are they going to be switching from beer to spirits? Have you any idea what you expect? You must do market studies. You must know where your consumers are shifting from one drink to the other. Where do you expect the shift to come from, wines to a greater extent than beer, or about even, or from imported to spirits? What are we looking at in terms of a shifting consumption pattern?

Mr. McNaughton: My guess would be that there is the million cases that Mr. Taylor mentioned, which is a substantial quantity. There probably would be some shifting back from losses to beer and wine, back to spirits. It may even be that your consumption on the part of non-Canadians would go up. I am sure it is a very unsophisticated American that dares come to Canada without bringing his own spirits with him. He would have to be crazy to do that because the cost would be approximately double what he would expect to pay in the US. I think there would be a little pickup there. It must enrage tourists when they come here who did not bring a bottle from home and thought they would get one up here and find that the price is more than twice what they are used to paying. There would be some pickup there. That would be more getting rid of an irritant than any great volume.

Mr. Coe: There is a question of a level playing field here too. The types of spirits have changed. Our distilled spirit as an alcohol beverage base is being consumed in many different forms never conceived when this form of taxation went into place. We have coolers, low alcohol products similar to beers and wines that are produced with distilled spirits today. We have low-proof cordials and liqueurs. We have the growth of cocktails and other products.

Our own research shows us that beverage alcohol consumers overwhelmingly, the greatest majority of beverage alcohol consumers, drink all three types of beverage alcohol. We are discriminated against directly today in our form of beverage alcohol because we cannot compete on an even plane, on an equal playing field with the other beverage alcohol types. Because of the change of product types, we have the ability to produce from distilled spirits beverages that are very similar to beer and wine, but we have the inability to

market those on a price-equal basis. A little bit of all these factors would result in recovery of our distilled spirits market and therefore impact favourably upon our operations.

Mr. McFadden: I am just reflecting on one thing. For example, if the shift was from imported wines to distilled beverages, that would be generally well received. The one thing that did strike me is that breweries now, I gather, argue they are overtaxed, over-marked-up and everything else. If we found that the shift in consumption was from Canadian-produced beer to Canadian-produced distilled product, we could wind up with a bit of competition developing between the two industries on how the tax treatment would be done. I know the beer industry itself is complaining about drops in sales, surplus capacity, potential competition with the United States and everything else.

From your point of view, you make a strong argument about the fact that you are not treated equally with the breweries. I am just raising the fact that if what you are saying is correct, obviously they will be here complaining that this whole thing is having a negative effect on them and forcing them to throw workers out of jobs and so on.

Mr. Campbell: But what has happened is that we have lost ground to them over this tax increase period.

Mr. McNaughton: Beer is flat, wine is up and spirits are down.

Mr. Campbell: They have taken consumption from spirits because of the huge price differential. They will argue that their sales are down, but they are talking per capita, not in absolute amounts, whereas ours are down in absolute amounts.

Mr. McFadden: Just looking at these figures, it seems to me beer and distilled liquor tended sort of to go together.

Mr. Campbell: Yes, there was a general increase in alcohol consumption through the 1970s.

Mr. McFadden: The ratio back in 1971 between distilled products and beer was about the same as it is today. It seems to me there was a narrowing in the period from 1975 to about 1982. In other words, distilled product consumption jumped and moved up faster than beer. What seems to have happened since 1982 is that they have gone back to more of the ratio that existed back in 1971. Would that be correct? I am just going by what you have here.

Mr. Campbell: That is correct.

Mr. Coe: On a per capita consumption basis.

Mr. McFadden: I am just looking at this. I do not know how the figures--

Mr. Campbell: That is correct.

Mr. McFadden: But the one that steadily keeps going up is this bottom line, which is our wine figure.

Mr. Campbell: Right. That is levelling off now too.

Mr. Partington: You mentioned the price of a bottle of spirits. I am intrigued about the bootlegging concept of it, especially a million cases of spirits. For a product that you sell here, what would be the price here and the price in the United States for the equivalent product?

Mr. Coe: The single biggest item smuggled into Ontario today would be a 1.175 litre bottle of Smirnoff vodka. That would be a good example. I think it is probably the biggest one we have seen in loads and in the apprehensions by the Royal Canadian Mounted Police. The price of that bottle in Canada today is approximately $35. Depending upon the state, but in New York, Michigan or some of the lower-priced New England states, the price of that bottle would be about 40 per cent of that, so it could be purchased for $16.

Mr. McNaughton: Or even less. I have seen it at $11.99.

Mr. Coe: And $11.99 on specials and weekend specials.

Mr. Partington: Just a couple of other questions: You indicate that 83 per cent of the price of a bottle is government revenues. Does that include the profit at a Liquor Control Board of Ontario store?

Mr. Coe: Yes.

Mr. Partington: That includes everything?

Mr. Campbell: Yes, but the markup is mostly tax.

Mr. Partington: Sure, I appreciate that.

Mr. Campbell: Ten per cent of it would be costs.

Mr. Partington: Which leads me to the next question. Is your sale of spirits through taverns, hotels and licensed lounges down more than across-the-counter sales, and do you care to comment on what effect this may be having on the ultimate health of the tavern and hotel business?

Mr. Campbell: It is affecting them as well. About 20 per cent of the sales of our products are through licensees in Ontario. It is much higher for beer. So, yes, the licensees are being very adversely affected by this high price. Mind you, they are also being affected by the drinking-and-driving thing to a large extent, more than the home consumption is.

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Mr. Partington: Has your percentage of sales dropped more through licensed premises than through over-the-counter sales?

Mr. Campbell: Yes.

Mr. Partington: It would appear too that with the tax being so overwhelming--certainly it is a greater tax on those whose income is lower than on those who--

Mr. Campbell: It is regressive.

Mr. Partington: It is a very regressive tax.

Mr. Ashe: As an industry, you are obviously well aware of the perceptions out there about the various alcoholic contents. You have your advertising program and so on. I understand from what you said before that you are cognizant of one of these trends, to lighter drinks. I think a lot of it is the fitness business, too. You talked about coolers and the 23 per cent new liqueurs and so on which I think is an excellent expansion of the industry to compete with offshore liqueurs. They are good products. I have tested quite a few of them.

Would it be possible to carry along this light-type perception. You could make Canadian rye whisky, for example, that was 20 per cent alcohol instead of 40 per cent. Or would it not pay because it would not be comparable marketwise? The wine industry has the seven per centers instead of the 11 1/2 or 12 per centers and the beer industry has its lights.

Mr. McNaughton: Can I answer that? About eight years ago, our company brought on to the market a rye at 35 per cent.

Mr. Ashe: Yes, but that is 35 per cent compared to 40 per cent.

Mr. McNaughton: The reason we brought it on at 35 per cent was that in our tests we felt we lost too much below that. In other words, we felt the taste loss was more than the market would be interested in.

Mr. Ashe: So you are saying that a rye and ginger ale at 20 per cent, presuming you use the same glass and then put in twice the quantity, will not taste the same.

Mr. McNaughton: The person who drinks it with water is the one who is going to notice it.

Mr. Ashe: Okay. I do not like it with water.

Mr. McNaughton: Very few people bought this 35 per cent because I think they wanted to be able to mix it. I do not think very much liquor is consumed straight. It is mostly mixed, but there is this perception that they want to have their own ratios.

Mr. Ashe: One very last question: I think Mr. Partington got very close to it before but I do not think it was exactly the same question I have. How does your end cost as a distillery industry--in other words, you have distilled the product and put it into the bottle. In your case, you have delivered it to the Liquor Control Board of Ontario. How do your actual costs compare with comparable products in the United States before all the tax aspects, etc.? I am talking about straight operating, overhead and production costs, that kind of thing. Are you competitive in that field?

Mr. Coe: Unfortunately, we are hit again by the economies of scale in the United States with some of the very large distillery operations and the fact that base alcohol is a direct byproduct of the large corn and grain industry in the US and is available at very low cost through massive distilleries for people who just want to obtain a white spirit.

Our products cost more to produce in Canada than they do in the United States, but the interesting thing is--it goes back to some of your questions, such as the question on the free trade issue--that the Canadian whisky distillers, even though we tend to have some higher costs because of the nature of our product and because of the quality of the product we are

producing here in Canada, have been able to compete successfully on world markets and have an enviable export record built on a higher-priced Canadian whisky product. In many cases, it is higher priced than the competing Scotch and American whisky products. We have been able to build this kind of market share in a free trade environment.

Our ability to deal with the world in a free trade environment is directly threatened today by retaliatory measures being threatened both through the General Agreement on Tariffs and Trade and through the US Congress because of the taxation system here in Canada, which is perceived by the European and American producers to be direct, nontariff trade barriers to the free trade or flow of their products into the Canadian marketplace. They feel they have opened up their markets for access by Canadian whisky--we are there at a higher price--and we have not turned around as Canadians and opened up our markets for their products because of this taxation system we are talking about today. Our exports are very seriously threatened today due to the taxation system in Canada.

Mr. Ashe: I accept that our Canadian rye whisky is well accepted in the United States and Japan. You can go into any establishment and find Canadian Club displayed prominently. I hate to use brand names. Fortunately for you, unfortunately for the rest, Canadian Club are English words that the Japanese know very well. I read in your brief that you accept that free trade will obviously help rye whisky exports, because the quality of the product has been well received. I was surprised that you included rum when you consider the prices. Rum seems to be produced in Mexico, the Caribbean and Cuba etc. where you are talking peanuts.

Mr. Campbell: The US has a high tariff on rum. We are the only country to which it applies because all the Caribbean countries are Third World and general preferential tariff. They come in duty free. The products of the US Virgin Islands and Puerto Rico come in free. The reason we see an opportunity there is that if that tariff were removed, we could then export rum into the United States.

Mr. McNaughton: Scotch goes into the United States at a more preferable tariff than Canadian whisky goes into the United States. I do not know why that ever happened.

Mr. Chairman: There is a competitive problem there. It is obvious from your brief, in which you indicate 83 per cent of the spirit dollar goes to government, that your problem is to some extent our problem. We have to debate the extent to which lifestyle would enter into the resolution of that problem, as has been pointed out to you in some of the questions that have been asked. We appreciate your bringing the matter to our attention. I am sure some of the comments you made with regard to smuggling and so on will be considered very carefully.

We now have the presentation of the Board of Trade of Metropolitan Toronto, exhibits 55 and 69, which are summarized on pages 1 and 3 of the summary of briefs. We have six witnesses who will be playing musical chairs with us for the period of the presentation. Ted Hall is chairman of the taxation committee of the board of trade. He was also manager for taxation of the Hudson's Bay Company.

Mr. Hall, I understand each witness has about a five-minute presentation. Perhaps you can start off and lead us through the witnesses. I have asked committee members to refrain from questions until each witness has

had a chance to speak. The last presentation this morning from the steelworkers will not occur, so you will not have a problem with the left wing trying to balance off what you are saying.

BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Hall: I have with me Ron Robertson, vice-chairman of the board's tax committee and a partner in McCarthy and McCarthy. He appeared before you as chairman of the board's committee on international banking centres. We also have with us Sinbee Han, who is with the Canadian Imperial Bank of Commerce and is a member of the board's economic policy committee. Ian Markham is chairman of the board's pension committee and partner in Peat Marwick. Joining us when the musical chairs empty will be Ron Robinson who will be speaking from the board's education committee. He is with Abt Associates of Canada. James Bursey, president of his own company, Bursey International Consultants, will be talking on the recommendations of the Radwanski commission on the service sector. Mr. Robertson and I will lead off on the tax issues, page 3 of our brief.

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We feel that Ontario should take the lead in setting up a consulting process with the federal government and other provinces on the matter of tax reform. Naturally our concern is to get one system that will best serve all of Canada. We certainly recognize Ontario has a big input there.

Second, we note that the federal government has indicated tax reform will reduce the number of tax preferences, which will therefore increase the tax base. There will be fewer exemptions and if Ontario keeps the same rate of tax, it would then reap a large taxation windfall. If this tax reform does take place, we assume Ontario will be lowering its rates so that it will not be getting this windfall; it will just be getting an equivalent amount of tax to what it is getting now.

I am going to turn the next part over to Mr. Robertson.

Mr. Robertson: Very briefly, this fits in with the windfall, but we are asking the obvious, I suppose, if we ask you to keep an eye on the competitiveness of the tax rates in Ontario compared to the rest of the country. Quebec in particular is lower, but you also have to keep your eye on New York, Ohio and Pennsylvania, particularly in combination with the US federal rate reductions. We feel the Quebec rate is quite a bit lower, even allowing for the higher capital and payroll taxes.

I will say only one short comment about international banking centres. We look forward to this committee's report and to the report of your counterparts in Ottawa. In the context of competitiveness, we would ask you to question and be the guardian as to whether the international-banking-centre proposal falls on the wrong side of some line of healthy competition between provincial tax rates and other initiatives we have expressed. We need say no more about that at this time.

Mr. McFadden: We have filed our final report with the Legislature. That was done in February.

Mr. Robertson: My apologies.

Mr. McFadden: Do not worry. All of the discussion leading up to that report got all the publicity. When we finally filed the report, I do not think it got any coverage. It was the last day of the Legislature. Perhaps we can send the report to the board.

The Acting Chairman (Mr. Haggerty): The clerk is looking for a copy of it.

Mr. McFadden: We can give you a copy.

Mr. Robertson: I am glad I blundered; I learned something. I appreciate your intervention on that.

Mr. McFadden: I think you will find it generally supportive of your position. I think you will be quite happy with the consensus of the committee.

Mr. Robertson: The next two points are very minor in terms of the time they will take because, as you appreciate, you cannot analyse the province's tax system in five minutes. I will try to do it in less than that. The feds have reduced the reassessment period from four to three years. Ontario's is still six. We think there is room to drop back at least a year in the provincial time for reassessment. Anything to clear up these reassessment possibilities quickly is worth while.

There is a three-year exemption for new enterprises for Ontario corporations. It does not apply if a corporation is related to another corporation. Technically, this can happen and no corporation is technically entitled to this thing. We are suggesting that provision be carefully reviewed. We are not suggesting corporations that are related get more than one shot at the exemption, but that area is quite bad technically and should be fixed up so that those who deserve it or intended to get it do get it and those who are not do not.

The last point I have to make is that for many years Ontario has disallowed five fifteenths of rent and royalty payments to non-arm's-length nonresidents. This is an aberration in any tax act. It started as part of a fight between Ontario and Ottawa, with Ontario trying to get a piece of the withholding tax that it is not entitled to constitutionally under its taxing powers. Such payments are analysed to make sure they are not too high in the normal course. This is just a mingy provision that leaves the taxpayer caught in a fight between the feds and the provinces. We think it should be abolished. No other province has it.

Mr. Hall: Recommendation 2 is that we think the province should take the lead in setting up a federal-provincial committee with the power of competent authority to settle interprovincial revenue allocation disputes. All companies that are in more than one jurisdiction find that one province will assess the revenue allocated to it in one way, and another province will do it in another way. The result is that the poor taxpayer is being double-taxed.

We know there is discussion on an informal basis between some of the provinces where this occurs commonly, notably Ontario and Quebec, but we think that to be fair to taxpayers, the proper approach would be a formal committee with competent authority to make decisions so that all jurisdictions, federal and the provinces, would be taxing a corporation on the same basis. We think if Ontario took the lead in suggesting this, it would go a long way to getting the committee started.

There is a federal-provincial committee dealing with revenue allocation, but its results right now are very disappointing. It does not really do very much. It is still arguing about a proper allocation formula. Naturally, all the provinces are supporting the one that will give them the most revenue, so we would ask you to consider that.

We have some other points. On sales tax, the exemption for meals was recently raised from $1 to $2. We point out that when the sales tax came in in 1961, the exemption for meals was $3. Presumably, the rationale was to allow persons to have an average meal without having to pay the tax. They would only pay the tax when they went for an expensive or luxury meal. We feel that suggesting a $5 limit now is not being outrageous. We ask you to consider that.

Our other three matters deal with the property tax. First, Metropolitan Toronto has still not faced the 20th century and brought its assessments up to date. We feel every taxpayer has the right to get an assessment notice that means something. My assessment on my house is $5,110, and that is ridiculous. It cuts down my chances of knowing how I compare with other people without doing a considerable amount of work, going to an assessment office and getting my neighbours' figures and spying as to whether they have more rooms.

Every taxpayer should have the right to get an assessment notice that bears a relationship to the market value of his house. We urge you to get Metropolitan Toronto on to this basis. We have suggested 1989, to get past the 1988 municipal elections. We know that would be a sticking point with them.

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We have also picked up on the advisory task force report's recommendation to establish split mill rates. In the past, we have always found that this was used to discriminate against business, to get more tax out of business and really to disguise the amount of the increase they were getting out of the property tax, because it was being paid by the business community and not by the voters. Back when this started in the 1950s, rates escalated every year. They went up and up, but because of this, there was not proper control. The voters did not see just how much it was going up. We oppose the suggestion of split mill rates.

Finally, in 1982, I believe, the government introduced legislation to permit municipalities to pay interest when they refunded tax because a taxpayer contested his assessment before the Ontario Municipal Board or some court and got a reduction. During the interim, he had to pay the tax. Until 1982, the situation was that he got his tax back but he did not get any interest on his money. This bill was brought in permitting municipalities to give interest on the refund, but very few of them have done anything that is realistic. We bring to your attention that the only way to solve this is by having provincial legislation requiring all municipalities to pay interest on the money they have held, interest-free, for three, four or five years.

That concludes our tax comments. I will ask Ian Markham to talk about pension issues.

Mr. Markham: There are a couple of issues I would like to address with respect to pension policy. The first is inflation protection. The government has set up a working group of three people to study the issue of inflation protection. Its mandate is not so much whether pensioners should have inflation protection; its mandate is more how to bring it about.

Business has a significant concern about the costs of mandatory inflation protection for pensioners. Whether it is at full consumer price index or 60 per cent of consumer price index--those are the kinds of numbers that are being considered--there are many other cost increases that plan sponsors are having to absorb at the moment because much of the legislation came into effect on January 1, 1987. These increases include more expensive vesting, death-in-service benefits and many other provisions. The idea that the more generous a pension plan, the more costly the inflation protection, makes this idea of mandatory inflation protection somewhat inequitable.

The government has also imposed a moratorium on refunds of surplus from defined benefit pension plans. That moratorium is not going to be released until the working group has reported on inflation protection. That suggests there is some kind of link between the existence of surplus assets in a pension plan and the ability of the plan sponsor to be able to afford inflation protection.

If the government decides to introduce legislation that forces mandatory inflation protection where an organization has an existing surplus, and many organizations do, what would happen is that those organizations that have invested their pension funds very aggressively are the ones that would be penalized the most. That also seems to be inequitable.

Another problem is that if current pensioners are brought into such legislation, this would make the organizations that have mature populations of employees with many pensioners somewhat uncompetitive compared to new offshore companies that can come in with no pensioner groups whatsoever and that do not have to absorb those costs.

The federal government, through its Pension Benefits Standards Act, and the Alberta government, through its own equivalent Pension Benefits Act, already have legislation in place effective January 1, 1987. Neither has any inflation protection measures and neither has talked about any inflation protection measures. It is inappropriate for Ontario to be moving in a different direction from the consensus that was developed among all the provinces through many years of discussion. There are many organizations that provide ad hoc increases to pensioners. There is a basic level of inflation protection that all members of pension plans have; namely, when they receive the Canada pension plan and the old age security benefits, those are fully inflation protected. Our belief is that it would be inappropriate for the government to come in with legislation that forces pensions to be inflated because of inflation. That is the first issue.

The second issue relates to section 54 in Ontario's Bill 170, which deals with the changes to the Pension Benefits Act. Section 54 deals with marital discrimination. The concept of this is that where a pension plan provides an additional benefit to a surviving spouse after retirement, this is considered discriminatory against single people because the present value of the pension for a married person, allowing for that survivor's benefit, would be higher than the present value of the pension for the single person.

Many employees in Ontario plans would be affected by this kind of provision because many pension plans give additional survivor benefits on death after retirement. The practice of giving additional benefits to survivors after a time is long-standing and accepted. The way in which organizations would have to comply with this would be either to increase pensions for single people, so the single person would retire with a higher pension than a married person, or for the plan sponsor to remove the surviving

spouse pensions, which would clearly go against the best interests of surviving spouses.

Again, this is completely against the consensus that was developed over the past few years. To our knowledge, none of the other provinces has ever even spoken about this. If this is indeed discriminatory, then so are the Canada pension plan and all employer group life and dental programs and so on that provide additional coverage to surviving spouses and dependents. If that is considered discriminatory, then so is everything else. We suggest very strongly that this section be deleted from Bill 170.

Mr. Hall: Sinbee Han will now give us an economic overview. That is the first part of our brief.

Mr. Han: I would like to address the issue of reducing the budgetary deficit, but let me first briefly discuss the board's view as to the economic prospects for Ontario in 1987. I believe a discussion of the economic prospects will reinforce our recommendation of reducing the deficit.

Let me just say the board expects that much of the strength in Ontario's economy last year will continue through this year and into next. However, while we expect Ontario again to lead other provinces in terms of economic growth, we also expect that economic growth in the province will likely slow down, will moderate this year from recent trends. Overall, the board expects real economic output in Ontario will rise by about 3.2 per cent in 1987, down from the four per cent growth in the economy estimated for last year, but well above the 2.5 per cent increase forecast for the nation as a whole.

In the labour market, the board forecasts that employment in the province will increase by 2.7 per cent, faster than in any other province, and this will lead to an unemployment rate around the seven per cent mark this year and next. No other province will likely have such a low rate of unemployment. One of the brightest components of our forecast concerns nonresidential investment. We expect that total nonresidential investment in Ontario will grow by about 7.4 per cent in 1987. As I said before, the expected continuation in the strength of Ontario's economy only reinforces our recommendation that the upcoming budget include significant measures to reduce the province's budgetary deficit. I would like now to address these issues.

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Let me just point out that the board's prebudget submission, which you have in front of you, was prepared using second quarter financial estimates and therefore reflects some revision to the estimates. However, notwithstanding these revisions, our conclusions and recommendations concerning the deficit remain essentially unchanged. In fact, they are all the more conservative.

In other words, with revenue for fiscal 1986-87 higher than expected, a balanced budget could be achieved by the early 1990s, even without expenditure growth as slow as six per cent to seven per cent, as indicated and recommended in our prebudget submission. In other words, even if revenues and expenditures were to continue to increase at the same rate as they have been growing for the past five years, a balanced budget could be achieved as early as fiscal 1991-92. Better still, if unexpected gains in revenues, such as what we have been seeing, are applied to reducing the deficit, then a balanced budget could conceivably be achieved as early as fiscal 1988-89.

What is the point of all this? The board is suggesting that a balanced budget is clearly quite attainable. Indeed, compared to other provinces, Ontario perhaps has the best chance of achieving a balanced budget by 1990.

What are the benefits of a reduced deficit? There are three. Let me point out the first one. Ontario would be in a better position to cope with depressed periods in its business cycle, as indicated in our submission. We also believe that a significant movement towards a balanced budget would lead to higher levels of confidence, especially in the business community. We also believe that a move towards a balanced budget would improve Ontario's already high credit rating.

Mr. Hall: Mr. Bursey is going to talk about the service sector issues.

Mr. Bursey: I would like to make our comments this morning on the service sector, primarily aimed at the Ontario study of the service sector that was recently developed by the Ministry of Treasury and Economics. By the way, this document is more commonly known as the Radwanski report.

Mr. Chairman: We are familiar with that document.

Mr. Bursey: The Board of Trade is somewhat concerned by two major items in that report, and I will go into a few specifics. The major item that we are concerned about is the underlying assumption of the report that the service industry needs help. As noted within that report, the service industry has been growing across this province at an annual rate in some areas as high as 70 per cent and generally has been doing extremely well, providing excellent employment opportunities for a number of Ontario residents. That has been contributing very positively to the Ontario economy as well as the tax base, probably, even as acknowledged within that report, better than any other sector within the Ontario economy.

We therefore question many of the items that were brought up as recommendations. There are 33 of them. Those recommendations suggest that there should be considerable expenditures to assist a sector that is already the fastest-growing sector in Ontario. We are worried because we have another sector--one that employs many people and has a considerable amount of capital investment--the industrial sector, which is not doing so well in a number of key areas, especially if we ignore the automobile industry which to a certain extent has been the engine of this province's growth for the past three or four years. There are a number of manufacturing industries that are in serious trouble and could benefit much more from Ontario's limited resources than would the service sector as a whole.

Our second major objection is the whole tone of the report, which assumes that money need be spent on the service sector at all and that further government expenditure should be done in this area. Certainly, this would run contrary to Mr. Han's previous statements about the possibility of improving Ontario's credit rating and certainly would detract from Ontario's achieving some semblance of a balanced budget in the near future.

In more specific comments, if you would like to follow in our submission from pages 7 and 14, I will go through a few points. Let me start off by saying that of the 33 proposals contained within the report, nine are directly aimed at business. Of those, we categorically object to six, are somewhat ambivalent about two and the only one that we tend to support is the one that

actually is only a statement of encouragement and therefore does not incur any expense.

The first one we have a major problem with is recommendation 9, "That, in order to strengthen the viability and growth potential of small service sector firms, the government...facilitate...access to equity capital," etc. We are concerned for two reasons. First, service concepts, being intangible, are inherently riskier and therefore the government should be very leery of any investment in that area, especially where it has no track record of expertise. Second, there are considerable opportunities for abuse within the service sector, simply because it is such an all-encompassing industry in which to provide money.

Another problem of course is that many of these items are small business sector and, I think, as the Radwanski report quite correctly points out, the general income generation, per capita, in the service sector is considerably lower than in the resource sector or the manufacturing sector of this economy. Hence, we are supporting lower-return jobs for potentially riskier money.

Another item I would like to bring to your attention is recommendation 11, "That the government improve the vital access of small business operators to information and to assistance programs," etc. That recommendation seems to fly in the face of the fact that we have boards of trade, chambers of commerce in most Canadian cities--in almost every Ontario town and city--and therefore we would be duplicating, again at additional expense, services that already exist.

Recommendation 13, "That the government establish a large-scale, province-wide, high-profile volunteer program of small business counselling," using past executives and entrepreneurs and have these people assist emerging businesses or sevice sector businesses. Again, we question the need for this. While we support the basic idea, we question the actual additional provision of such services since those services are already being provided quite ably by the Ministry of Industry, Trade and Technology.

One of the major concerns we have, however, is with item 16 of this report's recommendation, "That a specialized agency of the government, dedicated exclusively to the promotion of trade in services and related goods, be given the mandate and the resources to" carry out a number of functions. I will not go into those, since they are lengthy. This is probably the single largest cost item that we have been able to identify and effectively lays the foundation for creating an entirely new department within the Ontario government.

We could not object more strongly. There is no need for this. The various ministries that deal with the service sector already, in particular the Ministry of Consumer and Commercial Relations, the Ministry of Industry, Trade and Technology and the subdivisions of various other ministries, do a very adequate job at the moment. We have heard from the business sector very little complaint about the job they are doing other than a few specific programs. There is no real need to create another great big load of bureaucracy.

Our next point is item 21, "That the government build on the work of this study and provide an implementation mechanism by creating a position of special adviser"--again, unnecessary and costly. We have a lot of special advisers at various levels of various ministries, some of whom are attached to ministers' offices, others of whom are attached to deputy ministers' offices,

assistant deputy ministers, and even, I believe, in some of the offices of the Premier (Mr. Peterson) himself. We already have a lot of advisers. The further co-ordination and cost of this I hate to imagine. We could not possibly support any further addition of staff.

Another was suggestion 23, "That the government establish a new public policy research and analysis institute" to significantly differ from the former Ontario Economic Council. We agree that this might be a good idea, but the resources already existing in our universities and the learned people, some of whom are in this room, could probably provide enough economic leadership to continue various policies for a number of decades. Again, we have to question the cost and effectiveness, given the track record of the now defunct Ontario Economic Council. Our comment on that one is that we would support it, but for heaven's sake, do not spend any more money. There are many more worthwhile programs, and quite frankly, the OEC was often bypassed in favour of short-term solutions that probably had a lot more important impact on the voters of this province than some of the recommendations of the OEC. So let us not re-create something that is probably well enough left alone.

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Recommendation 24, "That, in view of the prospect of significant competitive and ownership losses in key service sector industries with only very limited compensating gains in others, the government of Ontario be highly cautious regarding any comprehensive Canada-US agreement for free trade and services."

While caution and prudence are always to be expected from government, as they should be from any well-run corporation, that the Ontario government start off on the premise that it does not support free trade we think is quite misleading and not in the best interests of Ontario. As I think this committee well knows, the Board of Trade of Metropolitan Toronto supports continuing discussions on what has been referred to as free trade between Canada and the United States. We have already made that presentation quite clearly to you, not too long ago.

Again, in the same vein is recommendation 26, and for similar reasons, we could not support it. I would like to make one other comment that relates to the next speaker's remarks. We have examined some of the education-related comments that have been made in this report, and some of the comments my colleague will make now also carry the support of the international trade committee of the board of trade, since we consider education both a major problem and opportunity within this province.

Mr. Robinson: I am aware that we now are over our appointed time and I have just a few comments to make on the education-oriented recommendations of the Radwanski report, so I will deal with them briefly.

The first that deals with education is recommendation 2, which has to do with curriculum development. The board of trade is quite in support of the idea that the basic skills should continue to be emphasized in the educational system. We have some difficulty with the second part of this recommendation, which seeks to include "clear thinking" as one of the defined basic skills. It is our view that in a soundly built curriculum, clear thinking tends to emerge. It is, we hope, taught.

Mr. Poirier: You are an optimist, are you not?

Mr. Robinson: Yes. To construct a separate element of curriculum that attempts to teach people to think clearly is, in our view, somewhat misguided.

The third recommendation speaks to "standardized province-wide testing." With some reservation, we support this recommendation. In the business community people are tested regularly and stringently on their performance, and it is appropriate for the educational system to provide similar testing experiences for students so that the experience of the business community is not entirely unexpected. We are aware of the difficulties that have been laid at the foot of standardized testing and we think those can be dealt with, so we support cautiously the recommendaton on standardized testing.

Recommendation 4 deals with the level of funding to universities. We support this. We agree in principle that funding for the universities should be increased. We caution that in doing so, a performance-rating system would seem to be warranted, that the increasing funding be done with an eye to the cost-effectiveness of the funding. In taking this position with reference to the recommendation, we are well aware of the difficulties of assessing the cost-effectiveness of the investments in post-secondary education, but at least the questions of user fees and the reduction and control of duplication should be addressed at the post-secondary level.

The fifth recommendation deals with emphasis on "communication, problem-solving and decision-making skills" at the post-secondary level and "an integrated interdisciplinary approach." We believe that colleges and universities should emphasize the basic skills, but again that much of this training should begin and receive high levels of emphasis at the elementary and secondary levels. If a person comes to the post-secondary level seriously lacking skills in communication and problem solving, he is unlikely to correct those deficits at the post-secondary level. Such a small fraction of the total population is trained at the post-secondary level that it seems to us to be somewhat misdirected.

Recommendation 6 talks about "boundary-spanning expertise," and we generally agree that cross-subject training is a good thing.

Recommendation 7 speaks to establishing "a world-class centre or institute for the study of international trade and marketing." We agree, as the previous speaker has said, with this general thrust, and the board of trade is continuing its study of this recommendation. We would make one caution; we tend to believe the program is better advised at an undergraduate than a graduate level.

Recommendations 19 and 20 speak to the role and place of foreign students in the Ontario system. We find no significant evidence that indicates that any increase in tuition fees for foreign students has affected the enrolment of such students, so we disagree with recommendation 19. We disagree, as well, with recommendation 20 about establishing work experience programs for foreign students in Canada. We think this runs counter to the direction that the board of trade would like to see. Those are the comments on the educational aspects of the Radwanski report.

Mr. Hall: That concludes our presentation. We are ready for questions.

Mr. Chairman: Before we go to questions, I have an intitial one. Did Mr. Radwanski consult with the board of trade at all?

Mr. Bursey: No.

Mr. Chairman: Not to your knowledge?

Mr. Hall: Not that we are aware of.

Mr. Foulds: Would the board of trade support a commitment by the provincial government to a full employment economy?

Mr. Hall: I think we would. It is a very general question, Mr. Foulds.

Mr. Foulds: No, it is a very specific question. It is a very broad topic.

Mr. Hall: What is full employment? Is it four per cent unemployment or two per cent unemployment? I have heard numbers up as high as seven or eight, overall.

Mr. Foulds: Let us take the traditional one in the 1960s and early 1970s.

Mr. Hall: Then it was two per cent or three per cent.

Mr. Foulds: You will remember that the speech from the throne in 1972 talked about combating the unconscionable level of unemployment that was 4.1 per cent, so let us aim for less than that.

Mr. Hall: The board of trade and its members are only prosperous or successful to the degree that there are people earning money and able to use the services, so certainly the board of trade supports measures that will promote this. I do not think you will ever minimize or maximize anything. You always work towards this, and, certainly, the board would support working towards this.

Mr. Foulds: The question is a little bit more fundamental. Would the board support a commitment to that as a main, if not the main, objective of a provincial economy or Canadian economy?

Mr. Hall: I do not see why not. Without knowing what is behind the question, the board of trade is certainly after a fully employed province and country.

Mr. Foulds: It is not a trick question. Mr. Dryden, the youth commissioner, gave a very powerful presentation this morning, as his report does. One of the things he feels is that the government must take a lead in making a commitment to this. One of the hesitations I have about that is, for that to happen, you need to have the commitment of other sectors of our society, i.e. business, labour and so on.

Mr. Hall: We are all here to get the best possible deal for everyone in the province.

Mr. Foulds: Can I take it another step? This may be the trick part of the question. If you commit yourself to that, is it worth not spending all

of your new-found revenues to wipe out the deficit, but balancing that and trying to do some of each?

Mr. Hall: I deal mostly with tax matters. As far as economic policy is concerned, I am just giving my own views. I think you will have to realize that.

Mr. Foulds: Yes.

Mr. Hall: I certainly think the board would commit to expenditure it felt was going to have a return to the province in terms of new employment opportunities.

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Mr. Foulds: There is great emphasis on the deficit and the concern within the business community is well known, whether it is at this level or the federal level. Most of the presentations we have heard have to do with that. One of the ways we could tackle the problem of the deficit would be to increase taxation, both on the corporate and the personal sectors. Would that be a method the board would look upon favourably? What would be your attitude there?

Mr. Hall: No one likes increased taxes. What we have said is that we feel taxes will increase this year, which might tilt the balance back and cut into opportunities for job creation. Would you like to say something on that, Mr. Han?

Mr. Han: We just addressed the issue you brought up about the board's support for full employment and particularly you "trick question" as to whether government should take "surplus" revenue and spend it towards reducing the unemployment rate. From an economic standpoint, I believe the best way to create employment is through the business sector. If there were opportunities the business community had to generate employment, opportunities provided by the government, the board would support that.

Mr. Foulds: What about areas business does not by tradition occupy, for example, the education sector? A lot of the employment boom in the 1960s was a service sector employment boom. It was in education, the health sector and the social services sector.

Mr. Han: You are right. There are a lot of sectors the business community is not involved in but the overwhelming majority of jobs in Ontario is a result of business enterprise, so if there were a healthier climate to generate the jobs, in other words, through some incentive programs, I believe, economically speaking, that is the best policy.

Mr. Foulds: I thought the public sector actually had as many jobs as the private sector.

Mr. Han: I can give you the exact details. I do not have the numbers with me.

Mr. Foulds: Okay. What you seem to be advocating, though, is that you would want some kind of tax incentives to the private sector to create jobs.

Mr. Han: I am not sure I would use the words "tax incentives."

Mr. Foulds: Okay.

Mr. Han: Along those lines, yes.

Mr. Foulds: Sorry?

Mr. Han: I am not sure if "tax incentives" is what I meant to say.

Mr. Foulds: What other kind of incentives could we have to create employment?

Mr. Ashe: Climate.

Mr. Partington: A fairer climate.

Mr. Foulds: I am asking the witnesses.

Mr. Hall: Basically, the board has taken a position agreeing with the scope of the federal government's tax reform to reduce incentives to get to a more broadly based, fairer tax system, and to that degree, we are not supporting the continuation of "tax incentives."

Mr. Han: I think the initial crux of this issue is, do we support full employment? To the extent that getting full employment would be a cost, in other words, increasing the deficit, I do not think we would support that.

Mr. Foulds: So you think the unemployed should bear the brunt of the current boom in Ontario's economy.

Mr. Bursey: Maybe we would rephrase that a little bit. Rather than saying the unemployed should bear the full brunt, maybe some of the brunt should be borne by us in this room for not having provided the environment for our country to be more competitive against some of the countries that are causing the unemployment. I think we have pointed out in previous submissions to this committee that Canada is no longer an island unto itself, with tariff barriers protecting the productive entities that provide the tax base for this economy.

One of the areas in which we, as a business community, could expect some assistance is consistent policies at both the provincial and federal levels, which would assist Canada to become more competitive or reduce the immediate impact as we lower our tariff barriers. Quite frankly, that impact has been that Canadian industries, after historically developing behind a tariff barrier as we have done since Confederation, now are being forced, cajoled or whatever word one wants to use into the international arena. That has caused a considerable amount of unemployment and will probably continue to do so, simply because we have developed as a branch plant economy in some of our industries, while in other industries we have developed based on our own natural markets.

All that is not solvable by simply increasing the tax rolls and paying people by either the educational system or a make-work system. The quality of the jobs that would create would not compensate for the quality of jobs we are losing. We have a number of issues here. It is not a simple thing of whether the board of trade would like assistance for business. Maybe it is a little bit more fundamental than that. We really need assistance for the economy so

that we will have quality people who can be put into or who can create quality firms that can then provide quality or large values of revenues to keep the system ticking along.

There do not seem to be any short-term solutions. I am just trying to summarize some of the points.

Mr. Foulds: I understand, but the three or four countries that have made a commitment to full employment, such as Japan, Sweden and Austria, all have different methods of arriving at it. They all seem to work fairly well, and except for Japan, they are not the economies we are particularly competing against.

Mr. Bursey: Let us not make assumptions that we are competing against Japan. The kinds of products this country makes are not competitive with Japan. We are competing mostly with Brazil, Spain, Taiwan and Korea. That is our competition in our manufacturing goods sector. We do not compete with Japan. We are clients of Japan and we provide Japan with raw materials, but in the competitive end, we are not competing.

Mr. Foulds: What are you saying? If those are our main competitors in the products we produce, then how do we become competitive with them, by paying the same wages as Third World countries?

Mr. Bursey: If we want the same standard of living as a Third World country, the short answer is "yes." I do not think we want that standard of living.

Mr. Foulds: How can a worker who earns only $3.50 an hour have a high standard of living?

Mr. Bursey: In our economy and our cost structure, it is not possible. I agree with you. The difference is that one has to create the climate where we can invest, where we can get lower-cost capital--which for the moment, is the case; historically, it has not been--and where we can have the kinds of people who are educated through our educational system, who have the knowledge to design and implement manufacturing or service support systems that are competitive and that can produce competitively with countries that have $3.50-an-hour labour. That is our problem. It is a different kind of problem than they have. It is not likely that we would accept or that it would be beneficial for us to have low-cost labour here.

Mr. McFadden: I want to compliment the board on the depth and breadth of its submission today. Approaching asking questions is like approaching a buffet that is 50 feet long. There are 150 things you would try to delve into, but we do not have the rest of today to get into them. I will try to limit myself to three or four areas.

Mr. Hall: Lobster.

Mr. McFadden: Yes, I like the lobster.

I have two questions directed to Mr. Han, but I do not know whether anyone else wants to respond. First, with regard to the projections of nonresidential investment in Ontario, I believe you mentioned a seven per cent increase, year over year, in the next year. In what sectors do you expect that investment to be coming?

Mr. Han: The bulk of it will come from the manufacturing sector.

Mr. McFadden: Any particular part of the manufacturing sector?

Mr. Han: Yes, transportation equipment, heavy machinery. The bulk of it will come from transportation equipment, especially in southwestern Ontario.

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Mr. McFadden: Are you including the automotive sector in the transportation equipment?

Mr. Han: Yes, I am. Foreign automobile assembly plants are coming up in Cambridge and Brampton.

Mr. McFadden: What is the heavy equipment in regard to?

Mr. Han: It is industries related to that, that can feed into that.

Mr. McFadden: So the bulk of this, or a large part of it, is related to the automotive sector, ancillary plants and so on related to it.

Mr. Han: Yes.

Mr. McFadden: What effect do you think a downturn in the automotive sector would have in succeeding years? I understand from previous submissions we received--for example, the Conference Board of Canada yesterday was projecting some real slow-down in the rate of growth in the automotive industry, though not necessarily a drop totally. They projected a slight decline in the number of per unit sales in the automotive sector. What is your projection if that were to develop?

Mr. Han: We agree with that projection. We are calling for a slow-down, and in fact, a possible minor decline in that industry in two years' time. The effect of that on the nonresidential investment category would be quite negative.

Mr. McFadden: So this almost blip next year is probably based on decisions and assumptions that were made a number of years ago. This is just the natural flow-through. It does not indicate any particular optimism for next year. It is more related to a decision that was made back in the early 1980s.

Mr. Han: That is correct. I should point out that nonresidential investment is one component of our forecast. A lot of that investment is found in the manufacturing sector, which is found in the goods-producing sector, which is only about 30 to 35 per cent of the Ontario economy. We believe that the strength of the future of Ontario lies in the service sector, which if you take out the goods-producing sector, accounts for close to 70 per cent.

Mr. McFadden: To follow through on the other comments that were made, it is your view and the board's view that in the service sector we can expect steady expansion in growth without a lot of government intervention in terms of incentives or other programs.

Mr. Han: Correct. That is our hope. That is the board's view.

Mr. McFadden: In the area of a balanced budget, you mentioned you

anticipated that the province could achieve a balanced budget by about 1990 or 1991. What assumptions were made on that? I gather you are saying current expenditure levels, current revenue projections. What kind of economic performance?

Mr. Han: If we say that the revenues are expected to grow at the same rate they have been growing for the past five years, you could question the reasonableness of that assumption. If there was any slow-down in the economy, we might not get as much revenue as we have been receiving for the past five years. But we believe that Ontario's economy will remain around the 2.5 to 3 per cent mark. We are talking about economic assumptions for the next five years. That is a short-term economic forecast in real terms. Even if Ontario's economy gradually slows from 3.2 to 2.8 per cent next year, even with an average annual growth rate in the real output between 2.5 and 3 per cent, the revenues that can be expected will lead to a balanced budget by 1991.

Mr. McFadden: Am I right in assuming that a large part of that growth is coming from the service sector or will it come from manufacturing? In terms of your projection, there is a projection we have been hearing that the automotive sector might be heading into quite a downturn. Surplus capacity and various things have been put forward as reasons. What will be the major engines of growth to achieve a steady 2.5 per cent real growth over the next five years?

Mr. Han: Most of it will come from the service sector.

Mr. McFadden: Let us move on from the macro picture, dealing specifically with the area of clear thought; I do not know whether you get a lot of that in this building, but probably it is no worse than in most other areas. In terms of the kind of schooling we should be looking for, as Mr. Foulds mentioned, we chatted with Ken Dryden earlier this morning. As I mentioned to Mr. Dryden, I have had the opportunity to serve as Colleges and Universities critic for our party for the past couple of years. I have spent a fair bit of time with university and college people. As you are probably aware, there is quite a lively debate going on at this time about the appropriate kind of government policy in terms of the kinds of education students should be receiving.

There has been a recent thrust that people should be moving into the fields of science and technology. I can remember a few years ago, if you did not get your MBA, you would be a hopeless individual in the business community, so forget promotion. Then it was accounting; everybody had to be an accountant or have that background. Even lawyers from time to time have been viewed as having a particularly desirable degree.

Mr. Chairman: But that time has passed.

Mr. McFadden: That time may have passed; I do not know.

There seems now to be a school of thought building up, I gather, certainly from my talks in universities but also with personnel people and management people, that it is not so much the discipline per se you are in, but it is more your ability to deal with things, your adaptability to change, your analytical capabilities, your clear thinking; those kinds of skills. For example, a good friend of mine is a vice-president of the Canadian Imperial Bank of Commerce. I think his background is psychology. He did not get his MBA; he went through psychology.

Mr. Taylor: He can rationalize anything.

Mr. McFadden: He can rationalize anything, which is perfect for a banker.

What I am asking in terms of your comments here is, do you feel the government's policy should be thrusting towards certain specialties in trying to push the universities, jump-starting them to science and technology, or should we be orienting more towards the quality of university and college education across the board and encouraging analytical skills and thought as our first thing, regardless of the specific courses? I am not trying to trap you into a problem here. It is just that there is this ongoing question of manpower training and education and how government should be approaching this.

Mr. Robinson: First, let me say that the education committee has not examined the question put in that way, so you are getting an interpretation of what the members might say had they the chance to do so.

The education committee has examined the post-secondary training--I think that is your particular emphasis--with respect to the colleges and universities and has put a lot of emphasis on the degree of relatedness of the colleges' training to the job market. The board has supported that and is strongly in favour of that degree of linkage between the nondegree post-secondary and the job market.

We have taken the position recently that more funding should go to the universities. I think the recent history of Ontario is that universities have received a declining real share of public revenues. There are some problems we think are emerging in the university sector.

From a point of reference of a more general versus a more specific education, I think the committee would support the view that education should be of high quality and the question of the secondary and elementary levels of standardized testing comes to that point. We think the extent of scrutiny and objective assessment of student progress should be strengthened and improved.

At the post-secondary level, as I said, we are comfortable that in respect to the degree-granting post-secondaey, the level of expenditures should be increased. We find that employers are looking for well-trained people who will enter a career and grow in a career, rather than necessarily--outside of the professional areas--people with a specific, marketable set of skills. From the universities, we are looking for more broadly trained people who have the ability to think clearly and the ability to continue their education, to learn as they are employed. They are in effect trained minds able to turn their attention from a training in philosophy to a question of banking. At the degree-granting level, we are not emphasizing specific training for jobs.

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Mr. Bursey: Maybe I could add a nonboard comment, because we have not concluded at the board and we are working with the education committee on integrating some of the things. As a matter of fact, this reminds me of some of the earlier questions Mr. Foulds brought up. My own business is the automotive business. I am a consultant to the automotive industry. I work internationally and one of the funny things I had not more than a year and a half ago was a western European company--you can imagine which country it was from--locating in Cambridge and area that had a major problem because it was

looking for skilled people. Now, we are not just talking about skilled managers or skilled supervisors, which are what Ontario universities and colleges produce, but really skilled people to make products, which really are fairly highly paid positions, Sometimes they earn a lot more than management. There was a tremendous scarcity of these people.

The owner of the business was relating to me that he was looking for about 180 of them: machinists, toolmakers, tool and die people, really hands-on quality labour. He said he was able to find that at about age 30 to 35. He had a problem because in the country he came from, the same level of skill was available at ages 19 or 20.

The other thing is that this country is comparable to ours as far as standard of living goes. He said: "A person at 19 or 20 has an entirely different set of expectations of income and responsibility from a person aged 30 to 35. I am much more competitive exporting from Europe, paying Canadian or US taxes and selling into North America than I am actually manufacturing in Cambridge. So what in heaven's name am I doing here?" That was one of his problems. He has still not solved that problem and has actually had to cut back projected employment. He is not alone.

There are a number of other things. Your comment about education and the auto industry I find fairly relevant because it is a question that a number of committees at the board of trade have been looking at simply because we have a problem with productivity. I think that is what Mr. Foulds might have been considering in some of his questions. We do have a problem with productivity. It is related to our education system. It is related to our ability to raise money. It is related to long-term problems and not short-term ones.

Mr. McFadden: I will ask a final question related to manufacturing. Metro council and, I know, the city have been concerned about the decline of manufacturing employment in the Metropolitan Toronto area. I know your brief has mentioned that we should be giving some thrust in the whole area of the manufacturing industry, perhaps as opposed to, say, the service sector. Over the years, I have been involved with assisting a number of companies set up manufacturing operations in Ontario. Without exception, none of them wanted to locate in Metro Toronto because it was too costly to set up here. The land prices, the servicing, the whole works just worked against a manufacturing operation in general. There is the odd exception but most people find it prohibitive to be here.

What is your view as to the whole area of manufacturing in Metropolitan Toronto? For example, would it be an appropriate government policy to find some way to subsidize land prices, services and so on to get manufacturing into Metro, or should we allow the market to dictate in the sense that manufacturing would locate where, costwise, it is most competitive today, and leave Metro as essentially a centre for, obviously, the service sector, where it is clearly now heading? What is your view? Should we jump-start manufacturing here or allow manufacturing to develop more naturally where it would tend to develop, as it is doing now?

Mr. Bursey: The board currently has three members on a committee that has been set up by the Metro chairman to consider just that problem. Actually, it is a strategy for Metro Toronto. I cannot answer for them, although I have talked to them informally. It seems, though, that there are two options. One is to do what most major North American cities have done and that is to replace traditional manufacturing jobs with service sector jobs. That is a little difficult since one thing that must be acknowledged is that

the per capita income in the service sector is between 20 per cent and 35 per cent lower than the per capita income in the manufacturing sector. There is going to be the problem of income generation.

On the other hand, and you are quite right, industry will locate where there are lowest costs because it has to produce goods. It is not really very sensible to try to set up a manufacturing plant in downtown Toronto for probably three reasons, exclusive even of what the residents of the area would say. First, the transportation is pretty god-awful. Second, the cost of the land is not particularly good. Third, there are your power grids, which is what a lot of the industries, especially secondary industry, need. They need a considerable amount of electrical generation. It is just not adequate for an industrial base. It may be that even if we wanted to, we could not do it from a logical point of view. That is about as far as we have considered it so far.

Mr. McFadden: Okay. I could go on, but I think other members have questions.

Mr. Chairman: Actually, Mr. Poirier's questions have been answered.

Mr. Ashe: I have to ask the one that is expected of me. Why do you call yourselves the board of trade rather than the chamber of commerce? I asked the Ontario Chamber of Commerce the distinction the other day. They could not answer it and suggested we ask you.

Mr. Hall: I believe we got our name first, in 1842.

Mr. Ashe: In your view, are they one and the same in terms of the role, the function?

Mr. Hall: We are a member of the Ontario chamber and of the Canadian Chamber of Commerce.

Mr. Ashe: Okay, so your answer is longevity?

Mr. Hall: Yes.

Mr. Chairman: That makes some sense. Where I come from, they started as a board of trade and now they call themselves the chamber of commerce.

Any other questions? Gentlemen, we appreciate very much the presentation. You have obviously put a lot of work into it on a lot of different aspects of the budget; in fact, pretty well every aspect has been touched upon. We appreciate your giving us initially your two written presentations and coming here to supplement them. We will be paying a lot of attention to it.

Mr. Hall: We appreciate this opportunity. We are all working for a better Ontario and we hope what we have to say will come out in the final recommendations. Thank you on behalf of the board of trade.

Mr. Chairman: This afternoon, we will be meeting with the Automotive Parts Manufacturers' Association of Canada at two o'clock. They will be here.

The committee recessed at 12:06 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

WEDNESDAY, MARCH 25, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Caplan, E. (Oriole L) for Mr. Ramsay
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Automotive Parts Manufacturers' Association of Canada:
Wilson, G. R., Chairman
Lonmo, O. V., President

From the Canadian Life and Health Insurance Association Inc.:
Devlin, G. M., President
Leckie, R., Senior Vice-President and Chief Actuary, Manufacturers Life Insurance Co.
Witol, J., Vice-President, Taxation and Research

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, March 25, 1987

The committee resumed at 2:09 p.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: I see a quorum of those who count. This afternoon we have the opportunity to get into some pretty meaty stuff, I hope, in view of some of the evidence that we have heard this week with regard to the auto sector, the role it is playing in our economy right now and the role it is proposed to be playing in the next few years.

We have with us from the Automotive Parts Manufacturers' Association of Canada, Victor Lonmo, president, Grant Wilson, chairman of the board and Harvey Filger, director of business affairs. The association has presented a brief to the Treasurer (Mr. Nixon), copies of which I hope we will have prior to our commencement of writing this week. Gentlemen, if you have any opening statement you wish to make, please go ahead and make it and then I rather imagine you will start hearing some questions.

Mr. Wilson: I would like to thank you for inviting the automotive parts industry here today to speak to you on a very important issue that you have undertaken.

I need not state the importance of the role the automotive industry and the automotive parts industry has played in Ontario and Canada, and which it will and should continue to play. The automotive parts industry, believe it or not, employs more people than the motor vehicle assemblers in Canada. We are employing in the neighbourhood of approximately 64,000 to 65,000 people, of which approximately 55,000 people are employed in Ontario. The total employment in Canada on a direct relationship with the automotive parts industry and motor vehicle assemblers is approximately 140,000 people.

The automotive industry through the past couple of years has gone through and in the next three to five years will be going through a severe structural change in that we have some new players in our country. I am talking about assemblers, the Asians, the Koreans. We are going through a tremendous technology change and restructuring. Believe it or not, this industry, when we talk of high tech, is one of the most high-tech industries in North America. Of high-tech usage, the automotive industry and automotive parts industry uses approximately 35 per cent of the new high tech in our industry.

Even from the standpoint of investment in Canada over the past two or three years, there has been over $9 billion committed for new facilities, technology improvements and upgrading. There is a tremendous economic viability from this industry, and beyond that is a great multiplier on other economic producer such as the glass, plastic, rubber and the steel industries.

We are currently, as we all know, in great discussion with the United States on a free trade agreement. We in our industry really feel we are in the dark ages; we really do not know what the negotiators are talking about. All

we know is that we have an auto pact. It has been one of the world's best bilateral trade agreements that has ever been comprised of. It has been good for the United States; it has been good for Canada.

We have excess capacity coming on board over the next three years with the addition of the new assemblers in both Canada and the United States, excess in capacity of approximately 2.5 million vehicles. Beyond that excess capacity, there is also going to be excess capacity in the vehicle assemblers in Japan, for example. They are talking upwards of three million vehicles.

These and the present conditions that exist with the importation of vehicles coming into our country totally, if we look beyond the Japanese and the Koreans, and look at the Russians and the various other assemblers shipping into our marketplace, they are in the neighbourhood of just short of 40 per cent; between 38 per cent and 40 per cent.

We face some very serious problems in the months and years to come that are going to meet us, as suppliers of parts in our industry in North America, in remaining very competitive. They is our trade policy. We feel that other than the auto pact, we do not have a trade policy. As you are well aware, we have the auto pact that deals with the major three or four assemblers in North America. We have an arrangement with the Japanese and an arrangement with the Koreans. I do not know how we can go and negotiate with our largest trading partners and say we are going to talk about the auto pact when we have three different trade agreements.

Another problem we face is taxation in this country. We must look at our competition. I not only look at our competition in the United States, but I also look at it in other countries. I am talking about Japan. Everybody is expecting us to be world-class, world-competitive suppliers of auto parts, which we are, but this ever-increasing burden puts more difficulties on all of us.

The automotive industry is a global industry today. We cannot continue to be the Boy Scouts of the world. We are the only country--that being Canada and the United States--that allows access to our marketplace on a duty-free basis. Currently, legislation is being drafted by the European Community, which is out to look at these problems, which it is faced with. Motor vehicle assemblers are coming in that in relation to jobs, are using one third of the amount of jobs that the parts producers are supplying. For example, for every job in an assembly plant, there are two to three jobs provided through the parts industry.

It is said today that in our industry, parts coming into North America, and I say North America, are approximately 35 per cent of a vehicle. I am not talking about the assembly.

Mr. South: Would you repeat that, please?

Mr. Wilson: Approximately 35 per cent of parts coming into vehicles in North America today are being imported. I need not tell you that these affect our economic peace; affect jobs, affect everything that you and I are greatly concerned about.

Without an auto pact and a good structural arrangement, which we have had in the past, and without some of the safeguards and the protections we have, we are concerned that we may end up with no automotive industry. With no automotive industry, there is no auto pact. The way people talk today, that

there should be no safeguards: If no safeguards are here, how are we going to continue to protect our small segment of the total North American market of 10 per cent? How are we going to control these assemblers, retaining and expanding their facilities and their equity bases in this country?

It may be that in time, with the reduction and the overcapacity, they may see fit to produce all the product out of the United States. Without some kind of protection, how do we protect against this? This would affect the auto parts industry. With the loss of the automotive assemblers, we would have no parts industry. In total, this could affect upwards of 140,000 jobs, if we lost it all.

We appreciate the articulated views of the Ontario government, expecially by David Peterson, on the free trade and the auto pact discussions today.

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Some other information that might be noted is that even though the auto industry reports that there has been a surplus in Canada, especially in this past year, of approximately $5.5 billion, in the auto parts industry since its inception in 1964, we have a deficit of over $60 billion.

Mr. Chairman: You said $6 billion.

Mr. Wilson: Sixty--six, zero.

Mr. Chairman: That is what I was afraid you said.

Mr. Wilson: Our deficit is $60 billion.

Interjection: That is since January 1965.

Mr. Lonmo: That is cumulative.

Mr. Wilson: In the area of taxation, we realize we must be competitive with other countries, those being Japan and the United States. The recent tax reform introduced in the United States is certainly going to put some pressure on the Canadian government. We hope the taxation reform program Mr. Wilson is looking at is going to assist not only Ontarians but also all Canadians in providing and increasing the equity base we need in this country. We all know that taxes in both the United States and Japan are much lower than in Canada. They are of great concern to all of us in business.

In the area of social welfare, we have some very serious concerns. We feel that Bill 154 on equal pay for equal work is going to have a very strong impact on our commercial viability in the United States. We all feel that whether it is filled by a man or a woman, if the job is viable and there is a competitive market, we are not, nor should the government be, the body that says what type of pay structure it should have. We must look at where our competition is and whether these other countries have the same type of legislation we have. We must compete with them.

We have other areas that are of major concern: medicare costs in relation to those of the United States; workers' compensation, proposed legislation on overtime. These are all areas in which we must compete, not so much in the state of Michigan, which has its problems, but in the states of South Carolina, North Carolina, Tennessee and many others where industry is

locating. Industry is moving from Michigan to the southern states. To meet that competitive edge, we must be competitive.

We face a problem. Should our dollar decline? I will make a statement: for example, in my industry, if the dollar declines to 80 cents--

Mr. McFadden: Goes up.

Mr. Wilson: Goes up--it is more economical for me to buy steel in the United States than in Canada. I would say that is the case for most big producers and suppliers of steel components.

Mr. Haggerty: On that point, would that go the other way if the American dollar declined?

Mr. Wilson: Yes, sir, which it has done.

Mr. Haggerty: That is right. The dollar goes down, so our currency goes up.

Mr. Wilson: The dollar weakens. That is right.

There are some areas we think your committee and the government should review for consideration in the future. What can you assist with on tax reform if the federal government makes some changes? The other thing that is very serious in our small marketplace, especially for the smaller Canadian producers, is technology assistance. Our industry is changing dramatically and our proportion of the market and the number of dollars we can put into technology is very small. We want to ensure that no sales tax legislation is enacted that may deter investment in the country.

I talk about machinery, equipment and facilities. The government should look at some of our labour reform laws and some of the laws we have here. We are all as concerned as you are that this is 1987 and we are heading into future years. A human being is a human being and has to be protected. We realize that, but when there is over-legislation, most business people cannot keep pace with the changes in legislation. All we are doing is removing the competitive edge of our industry in this province.

I would like to draw a comparison between Ontario and Michigan, which commenced an awful lot of labour reform laws which are now having an effect. The automotive industry is moving out of Michigan to the southern states. We do not need that in Ontario. Collectively, I think industry, government and labour can certainly put together some labour reforms or some areas that can improve the viability of labour without all the tremendous amount of labour legislation we are seeing today.

I am going to leave the floor to you people who are going to have a lot of questions. In closing, one of the things that we, as an industry, must see we continue to gain and not lose is accessibility to the US market.

Without our accessibility to the US market, our automotive industry is nonexistent. I am talking not only about the motor vehicles, but also about the parts industry. Our tax system must be similar to that of the United States and our competitors, to encourage investment as well as to keep business costs comparable. If we are to open our markets to the offshore producers--and we welcome the competition--then we feel they should pay their fair share and work under our rules. They should not take advantage of

importing and exporting parts into our climate with no penalty cost. The government needs to determine whether competitors or social concerns are its number one priority.

With that, I would like to thank you for your time today. We open the floor. We will be providing your committee with a complete scenario of our views of the industry and what this province can do for us.

Mr. Chairman: Thank you. I appreciate that very much.

Mr. South: You indicated that Bill 154 was a detriment to competitiveness. As I see it, your whole basic philosophy is to try to undo what has happened in the marketplace. You are trying to equate jobs that are not the same and determine whether they are equal. In a sense then, are you suggesting that the women in the work force should subsidize the rest of us and take less money for doing an equal job?

Mr. Wilson: I do not think there is any discrimination at all. Whatever they do and whether they are male or female, people on the line get the same rate of pay. There is no way we should discriminate because they are female, nor do we. All industry has that open policy. A lady can apply for the job; there is no job posted saying it is a male or female job.

Mr. South: But it is not the same job. In Bill 154, you are talking about jobs of equal value.

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Mr. Wilson: Who determines equal value? Are we going to turn around and ask that of the government? Is some bureaucrat going to come along and say that--and I throw out a hypothesis--my secretary is as equal as I am and should get the same amount of money? Although I appreciate she may be a very competent person--maybe she is more competent than I am--I am asking, who determines it?

Mr. Chairman: This is a very viable debate, but I would be surprised if the present legislation is contradicted in a budget.

Mr. South: I just wanted clarification as to why you thought Bill 154 would alter your competitive position.

Mr. Lonmo: Could I add one point? Even those who are in favour of the bill have admitted publicly that it will raise labour costs four per cent to five per cent. Let me give you an example. In southwestern Ontario, we have a facility now operating which has plants in the US and also one in Mexico. This company makes a product which has equal productivity. It is relatively labour-intensive and it is an original equipment automotive part. The part is absolutely identical in all three plants. It meets the same specifications for the same manufacturer in the same vehicle.

Mr. Haggerty: Is that Trico?

Mr. Lonmo: No, it is not. In southwestern Ontario, the labour rate, without benefits, is $6.54 an hour. The labour rate in the new facility in Mexico, without benefits--of which there are very few, anyway--is US$0.35 an hour.

I think the point Mr. Wilson is trying to make is that any time you add

to the basic cost structure, for whatever reason--and we are not questioning the reason. If we in this industry are to be internationally competitive, and competitiveness is the buzzword in Washington and now in Ottawa, you will appreciate how difficult it is when the competition is the labour rates in South Korea, Taiwan, Mexico, Brazil and Argentina.

The point is, the only limitation to access to the Canadian automotive market at this time, if you are not under the auto pact, is a duty of 9.2 per cent ad valorem. I suggest to you, with those different cost structures, 9.2 per cent is not going to keep anybody out of anywhere. In the US, you have a situation where there is a 25 per cent ad valorem duty on trucks, and the Japanese have been extremely successful in supplying trucks to the American market, so even 25 per cent is not a prohibitive tariff.

Mr. Chairman: I just want to make it clear that I take it you are addressing what you hope will be protection for your industry in the budget in view of Bill 154, because we are not debating Bill 154 here. That is all I want to make clear.

Mr. Lonmo: We are not talking about protection. What we are trying to do is to give you a specific example of how difficult it is to be internationally competitive, all things being equal, and we have only looked at one cost element; that is, the example I gave you with labour.

You must also understand that, for example, in the case of taxes, if you are a major exporting country and you wish to reduce the impact of tax on your product's price, you shift from the kind of tax system we have in Canada to do like they do in Europe--and they are shifting this way--and also what they are doing in Japan. You have a value added tax. Under the General Agreement on Tariffs and Trade rules, it is quite legal to remit all value added tax components at the time of export.

What this means is that a company in competition with a company operating in Japan is basically paying taxes, and there are large companies in Canada--and you have access to the public records of their financial statements--which are paying 45 per cent or 46 per cent of their earnings in taxes. In Japan, when they introduce their new tax legislation, it may be quite possible that companies will be paying no tax. We are just giving you an example of the difficulty associated with being internationally competitive. It is not easy; it is very difficult.

Mr. Taylor: By way of clarification, if I understand the argument, you are talking in a generic sense in terms of government-mandated costs that do have to factor in, rendering you vulnerable in the international marketplace, whether it be unemployment insurance, workers' compensation or--

Mr. Lonmo: It does not matter what it is.

Mr. Chairman: I think we are pretty clear on that now. Bearing that in mind, Mrs. Caplan, do you have a supplementary?

Ms. Caplan: Yes. You mentioned the comparison of rates between southern Ontario and Mexico. I was wondering whether you had compared the figures on southern Ontario and the northern United States.

Mr. Wilson: Yes. I can give you definite examples. For example, in my own industry, in the southwestern Ontario plant, in this case here--and I will relate to both female and male in the departments; they are predominantly female, but there are both--I am paying upwards of $9 and something per hour.

I have outsourced in the US because of our inability today to bring this business back into Canada, which is a temporary arrangement here, and the outsource is paying $5.30 an hour and one third of the benefit costs now, in relation to the same guy who does the same work in Mexico. In Mexico this guy is paid under 75 cents an hour.

I must compete with these people, but I am responsible for our social costs or benefits, unemployment insurance, workers' compensation, all these things.

Ms. Caplan: Labour standards, health and safety.

Mr. Wilson: The whole thing.

Ms. Caplan: So you could make the argument that any of our social safety net programs that add to the rate--

Mr. Wilson: It adds to our difficulty in becoming competitive. It adds another dimension, and when you take the offshore--and I am not talking about the Japanese, I am talking about the Koreans or the Malaysians or any of these people over here--there is no protection. We just explained that the 9.5 per cent duty is peanuts as far as protecting our industry on a fair and equitable basis goes. They do not have to meet the social costs we have today.

Ms. Caplan: I believe this committee, of which I was a member when it was previously called economic affairs, heard presentations that suggested the labour costs in the northern US were, in fact, higher than the actual costs of labour in southern Ontario and that there was only a difference in structure. I believe we did have that representation made.

Mr. Wilson: If you talk about motor vehicle assemblers, there is no question about it; but here you are talking about the parts industry.

Ms. Caplan: I just wanted to make that distinction so you could clarify that. It does depend industry by industry, or sector by sector.

Mr. Wilson: The problem has been that when you are talking about the northern US, the motor vehicle assemblers are mothballing the northern plants and going to the south. That adds another dimension to ourselves, as Ontarians, in that we have farther distances to ship our product, when they talk to us just in time delivery. So we face another dimension of more competitiveness.

Mr. Laughren: I am confused as to who you think should be the benchmark against whom we compete.

Ms. Caplan: Mexico?

Mr. Laughren: I do not understand what you are saying.

Mr. Wilson: It is pretty hard to unravel what we have today. How can I apply a benchmark? I certainly cannot come back to the government and say today our labour reforms have to be backed up in comparison with the Mexicans or whoever it may be. All I am doing is cautioning you today that by adding more, you just put us into a more noncompetitive situation.

I find it very difficult to go back to my employees and say, "You are going to have to reduce your standard of living by 25 per cent." I am going to

have war, absolute war. Sometimes we feel we have to do it, but virtually, if you want to get their co-operation--you know we all need employment co-operation. These people have to live. They have not developed this cost of living and maybe they do have a better standard of living today, undoubtedly better than the Mexicans or the foreign people.

Depriving those people is a little bit difficult, but let us not add to the problems we have. That is what I am suggesting.

Mr. Laughren: More or less to call a halt to the improvements, if we call them that.

Mr. Wilson: I do not think, "No improvements." I think, "Let the private sector handle improvements." Whether it be my industry or your industry or whoever it may be, if I cannot compete with the guy across the road who is offering more in benefits, wages or whatever protection for the employee, I will not have employees. They will just absolutely not come in my door, and what good is my industry without employees? Why should we ask the government to protect them? If I do not protect them, I will not have good employees, and I need good employees.

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Mr. Laughren: I am surprised by your comments about Bill 154, the pay equity bill, because, as you indicated, you are not thinking of your own industry. You indicated that you pay women the same as men in your business, so the pay equity bill would not affect your business, would it?

Mr. Wilson: No, but when somebody questions in various departments--let us say, for example, I have a person in department A who, in my opinion, is management and who has more technical abilities to do the job than a person in department B. We are not saying whether it is a male or a female, but as a result, we are paying 10 per cent higher wages in that department. Along comes the person from department B, who says: "I think I give the company as much or more than the person in department A. Why should I not be entitled to the same wages?" In his own mind, he feels that.

Now, the government people can come in and say they will assess. Maybe he absolutely, physically works harder than everybody in department A. Does that become the benchmark for him to get the same dollar or equal wages? That becomes a concern. It is the competitiveness of the job classification, not whether the person is male or female.

Mr. Chairman: I think we are still off on a tangent. I remind committee members that there is another committee looking at Bill 154. I can understand your wanting to have consideration of adjustments as a result of its possibly being passed, but--

Mr. Laughren: I will not pursue that. Towards the end of your remarks, I think you said government had to make up its mind whether it wanted as a priority competitiveness or social concerns. I wondered what your advice was.

Mr. Wilson: My advice is exactly what I was saying here earlier. I think the more government gets into legislation, the more it is going to affect our competitiveness. I do not want to come back on Bill 154, but that type of thing is going to affect our competitiveness.

Mr. Laughren: Why are costs so much lower in the southern US?

Mr. Wilson: I do not know why. They have some privileges down there by their labour reform thing. They have their right-to-work law, which I have advocated up here for many years. That is one thing. All that is to say if there is no protection for any (inaudible) being a union person or nonunion.

But the biggest problem we face, as a manufacturer or an employer, is the disruption of our services to our customers. If you have disruption of your services to your customer, first, there is no win. The employee does not win, the company does not win, the employer does not win. As a matter of fact, you lose, and normally you lose business as a result of it, and that affects jobs.

The only thing the right-to-work law protects is that whether there be a complication or anything else, people who carry on the business can carry on without it being blockaded and affecting their customers. We all realize our customers (inaudible). Those are other things that impede our competitiveness.

Mr. Laughren: Would you support Ontario being a right-to-work jurisdiction?

Mr. Wilson: I have to compete. Where my competition is, I have to look at it. Yes, I would.

Mr. McFadden: I would like to come back to the early part of your remarks. About half your remarks dealt with the whole area of the future of the auto industry vis-à-vis the US: the auto pact, the encroachment of imports and so on. I do not know if you were aware of this, but back in early February, Mr. Grossman sponsored a resolution in the Legislature, which was unanimously adopted by all three parties, taking the position that the auto pact and the safeguards under the auto pact should not in any way be jeopardized or infringed upon. I do not know if you are familiar with that.

Mr. Wilson: Yes, I am.

Mr. McFadden: All the parties in the House are now clearly on record on that point, so you are really speaking to a group that is supportive of your position. As Ms. Caplan mentioned earlier, the select committee that spent about 16 months looking at trade again endorsed the auto pact.

I am curious to get your attitude on one area that falls beyond the provincial government's jurisdiction. Perhaps it is something the province could pursue further. We urged that any preferences now in existence for products that are being produced by competitive and sophisticated industries in developing countries should not be subjected to any preference. We would include in that the steel industry, and I think, the auto industry. I do not think you could say that the plant producing the Hyundai car, say in Korea, is an unsophisticated facility.

The one thing we did urge was a more discriminating policy towards developing countries, so that we do not wind up granting preferences to industries in developing countries that do not really need or deserve preferential treatment. Obviously, there are industries in those countries that do and it is part of our obligation as a developed country. I am curious to get your views on that approach.

Mr. Wilson: I agree with you. I visited Europe, Japan and Korea. I saw their capabilities as far as technology is concerned, and they have some tremendous technology improvements. But I say to everybody, employees in

Canada and United States, that they are no better than we are as North Americans. They have one thing we do not have due to some of the social problems. They have the desire and the wish to do the job. Their productivity level is greater than ours. I assure you our technology base is equal to, if not better than the Japanese base.

Our product has been changing dramatically over the past several years. They have been producing for five, 10 or 15 years. We have done a tremendous job and are increasingly improving. Competition may have made us all a lot smarter, and we welcome that. I say to North Americans, as I say to any employer, manager or whomever that we are equal to them, if not better than they are. It is all in our minds and attitudes. That is what we try to say to governments. We add all these protective areas where a person is not in want. We are all in some way in want; some are in want of more than others. That is the only thing we miss, compared to the Asians, and they are our real competition.

Mr. Lonmo: I would like to add a point on the general preferential tariff, which is what you are obviously referring to. As you know, as of January 1, 1987, it is 6.0 per cent, two thirds of the most-favoured-nation tariff rate. The point I want to make is that it does not matter what that tariff rate is. We indicated before that the 9.2 per cent prevailing, most-favoured-nation tariff rate is not effective. If you raise the general preferential tariff rate from 6.0 to 9.2, it is an appreciated, symbolic gesture.

The other side of the coin is that there is only one market in the world that is open. Mr. Wilson has referred to the internationalization of the industry. Only one half of the industry in the automotive world is internationalized; that is production. The market in the world is not internationalized at all. The French government has a law on its statutes. We are not talking about a voluntary export restraint agreement. We are not talking about moral suasion. We are talking about written French law that limits the Japanese to less than three per cent of the registrations of new cars in any one 12-month period or one calendar year.

I suggest you look at import levels and penetration levels in Japan. They are about 2.5 per cent. They have gone up exponentially. They used to be 1.7 per cent. That includes all the cars brought in by US servicemen, which by Japanese law must be taken out of the country when they leave.

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The point we want to make to you, the point Mr. Wilson is addressing, is the cost structure we have here. The point is not to be critical of that cost structure. That is not the point. The point is to sensitize you to what we perceive some of the cost elements to be. At the same time, on the other side of the coin, is that we have almost unlimited openness to our market.

The Japanese, for example, for the fiscal year 1986-87, have been granted by the federal government about 21 per cent of the market. That is a pretty high restraint level for one country. You have the South Koreans who came out of nowhere and in two and a half years went to about 6.7 per cent of the market. You have the Europeans who historically have between six and eight per cent of the market. Now there is a whole myriad of new suppliers coming.

Who would have thought, for example, that Mitsubishi-designed cars called the Proton Saga would be coming into North America from Malaysia. One

does not normally think of Malaysia as being an automotive giant. You have new, redesigned Ladas coming out of Russia. You have Yugos coming out of Yugoslavia. There is a whole myriad. One should not, when you look at some of the opportunities and constraints, look at the situation as being North America versus Japan. That is not going to be helpful. What you have is an open market in North America and you have production around the world that is designed for, exclusively, the North American market.

There is no question about it. What I am saying to you is that you cannot have it both ways. You cannot have all the benefits that we have. The Prime Minister of Canada--I will read you a sentence, "The Prime Minister has repeatedly stressed that Canada's social programs are a sacred trust and regional development is sacrosanct." We understand what that means. We understand those words, but at the same time, there is a cost associated with them. We can meet those costs if we have market share. You cannot maintain the structure to support that kind of cost element without maintaining your market share.

The market share right now is declining. The North American share of the North American market is declining significantly. It will be about 50 per cent within two years.

Mr. Wilson: Today, if you relate to an automobile of $10,000 and our social cost is looked at as the motor vehicle--we are in the neighbourhood of between $650 to $800 per car, which none of the importers must meet. Right there they have an advantage in selling that product in this country. They do not share many of the social costs for that vehicle coming in here, but we must; we are a part of it and we respect that.

Mr. Haggerty: It is the consumer who picks it up, though. It is a pass-through to the consumer.

Mr. Wilson: No, the consumer has a choice.

Mr. Haggerty: That was probably the point I was going to make. I was listening to the conversation and the questions raised. You talk about the market in Canada and the United States for automobiles. You look at the average income of a family in Canada. I went to Dryden, for example, where the average income there is $37,000. Some are driving vehicles there, big General Motors vans, but if they did not have that source of money they would not be buying any automobiles.

I am looking at the question that was raised about the situation in Mexico. I was thinking of Trico in Buffalo that had pulled out of Buffalo and about 600 or 700 jobs were lost. They headed for Mexico. I guess the average weekly wage there is between $20 and $24 a week. Yet when they move into that, you cannot blame it on the government; you can blame it on the multinational corporations in the sense that they are setting up all these different plants for automobiles and finance them in other countries. Japan is very smart in this area.

Mr. Chairman: What is your question?

Mr. Haggerty: The question is that we are dealing with a matter of free trade. My comment is that the only way free trade is going to work is a buck is a buck, regardless of what country it is. The difficulty is how do you

compete in free trade if there is going to be a difference in wage scales across the border, particularly in the United States and Canada.

Mr. Wilson: Is it free trade or is it fair trade?

Mr. Haggerty: Fair trade is the thing we should all be concerned about.

Mr. Wilson: I have these things and I am a responsible employer and contributor to the economy of this country. That is what I have to continue. I could do the same thing as Trico, but that does not consider my being a responsible employer; nor would that be the 50 per cent of the other people, nor would it be the case of the competition of Trico. There is Tridon, a very prominent company. It did the same thing. If we allow these things to happen and allow people access to our market because of these things, where are they going to go next?

Mr. Haggerty: This morning on the news on a St. Catharines radio station I heard that Hayes Dana is phasing out part of its parts facility. There will be 300 or 400 jobs on the line. It will probably move somewhere else. Looking at the competitive bids out there, it has to move in this direction.

What is government going to do in this area? You talk about the social programs; welfare, equal pay, medical and workers' compensation all add a cost. You say we are allowing them to come in with parts and maybe even establish assembly plants here without picking up any of that cost whatsoever. Are you suggesting what the association has said for the last four or five years about Canadian content? Would that help?

Mr. Wilson: The 1983 task force report reflects that: content or Canadian or North American value added, however you want to put it. We are in a bilateral situation with the United States. I realize they have competition in the United States. They have social reform programs as we have here; maybe not as much. But I still maintain that if we hold these there, we can compete in a bilateral agreement with our competitors in the United States. But by are allowing the Mexicans, the Taiwanese or whomever it may be to come in at their rates, I will never be competitive with them under the umbrella they come in under today.

I do not know how the government is going to put that together. We have our recommendations. How they do it is by adding value added. Do you want to play in our marketplace? If you want to sell in our marketplace, then you be a responsible employer or corporate citizen within our marketplace. If you do not, then you use your assembly plants as glue factories. That is not where the big development of costs is.

Mr. Haggerty: What response have you got from the federal government, which is responsible in this area?

Mr. Chairman: Mr. Foulds has a question.

Mr. Foulds: Is it the position of your association that we should reduce our social programs and/or our wage rates to meet the competition?

Mr. Wilson: No.

Mr. Foulds: Thank you. In terms of excess capacity, you indicated

that you expect 2.5 million vehicles in excess capacity. Is that in Canada or North America?

Mr. Wilson: North America.

Mr. Lonmo: Let me clarify what excess capacity is.

Mr. Foulds: That was going to be my question.

Mr. Lonmo: The question of 2.5 million is not necessarily excess capacity. The 2.5 million is new capacity coming on stream in North America from what has been historically referred to as nontraditional suppliers. The excess capacity number, if you look at it in a global context through to 1990, is somewhere approaching 7.5 million units. That includes Europe, southeast Asia and North America. How people react to excess capacity will be an interesting thing.

For example, we have all seen and read in the past few years how Renault in France is dealing with the problem there of excess capacity. It is quite simple. It is funded by the government. It just runs up greater losses each year. One year, it has a loss in excess of US$1 billion and the following year the loss is in excess of US$2 billion. There is one way of dealing with excess capacity and that is through continued government support for government-owned industry. What usually happens, and what will happen in North America, is quite different. You will see plants close in North America.

In November of last year, General Motors announced the closing of 11 facilities in the United States and the termination of 29,000 employees. That is only the beginning. Anyone in this room who is concerned about the dynamics of the North American motor vehicle industry should be aware that there will be more closures. They will be very painful. There will be plants closing that I do not think most of us would like to admit to at this time. But in North America, where it is a profit-driven type of industry, you do not have excess capacity. You have closed plants. It is going to happen, it really is.

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Mr. Foulds: Is that as a result, to put it in very simplistic terms, of our having encouraged offshore producers to come in and set up capacity?

Mr. Lonmo: No, not necessarily. It would be very difficult if we tried to develop a closed market, for example, and denied companies like Toyota being participants in this market. Toyota is a world-class corporation in engineering, design, manufacturing process and so forth, and I think, if they were to meet the same standards and the same general performance levels that the North American companies have been meeting, we would be the better for it. They will bring something new to the table, and we should not discourage that.

We should not discriminate investment based on the country of origin of the investment. If it is new investment and it adds something new to the industry it should be welcomed.

Mr. Foulds: Right. Then I am having a little bit of a problem understanding what excess capacity is. They are bringing something new to the market. Either they bumped something old out of the market or there is a new product that was not previously sold in the market.

Mr. Wilson: What you have done is, yes, you are bringing in additional vehicles, which is going to remove current traditional suppliers. There is only a certain marketplace, and we are looking at an industry that is basically flat, with very little growth. The problem is that the 800 or 1,000 jobs that are put in place at Cambridge, for example, in the case of Toyota, may remove 1,000 to 1,500 assembly jobs at General Motors, Ford or Chrysler. That is one scenario. That is replacing one side of the coin with the other.

The other side of it, where there are three jobs to every one in the car industry, is the parts industry. They are importing all their parts, and we are not getting any of that business. They are allowed to come in--

Mr. Foulds: You would argue that one of the conditions of coming in like that should be the same condition that applies to the producers and assemblers in Canada and the US, that parts also be produced here.

Mr. Lonmo: It has to be that way.

Mr. Wilson: I do not know how we can have an auto pact and three different types of trade arrangements with three different countries.

Mr. Foulds: You are saying, if you have three different trade arrangements, they all should be the same.

Mr. Wilson: They should be.

Mr. Lonmo: The basis of any auto industry policy that is considered will have to look at the question of market access. The duty rates that are now applicable are not sufficient to restrain exports from anywhere, whether from Malaysia, Japan or elsewhere. They are just not a restraint. Without the market share you do not have an industry.

Ms. Caplan: I would like to ask, with the consent of the committee, rather than asking a question, to clarify something that came up. I guess I am wearing my hat as a member of the justice committee. Bill 154 has been alluded to, and the deputy made some statements which are consistent with the sorts of things we, as members of the justice committee, were hearing from businessmen who had some misconceptions of the bill. If I could take two minutes, there are a couple of things I would like to say about that.

Mr. Chairman: I think the witnesses have made it clear that they were using that as an example of a problem they are facing.

Ms. Caplan: I realize that, which is why I have asked for the opportunity to clarify. I think it is important, since that bill is supported in principle by all members of this House. I promise I will not take too much time, if you will allow me.

Mr. Chairman: Thirty seconds.

Ms. Caplan: You mentioned in your statement to the committee, and used the comparison of a man in one department and a man in another department, that fair compensation practices have nothing to do with gender. In fact, Bill 154 has everything to do with gender and, in your example, he in part B of your plant and he in part A of your plant would not be covered by Bill 154, because it is only the factor of systemic discrimination based on gender that would apply under Bill 154.

There is a very good presentation that was made to the committee--and I would be happy, if you would like to leave me your card, to send you a copy of that--which explains fully the implications, because I think you have some basic misunderstandings of that bill.

Mr. Wilson: Our own understanding of your human relations policy is that we cannot discriminate.

Ms. Caplan: For those who are not discriminating there will be no problem.

Mr. Chairman: I think we have to move on. We have gone a little over our time. I understand your concern, Mrs. Caplan.

I want to thank the witnesses again for appearing before the committee. We appreciate your views and we will consider them. Mr. Taylor says they are excellent. We look forward to your written brief, which we hope to see before we commence writing our report to the Treasurer (Mr. Nixon) on Monday.

Mr. Wilson: Thank you very much. It has been our privilege. You have our assurance as an industry that we are very supportive of the members and the government. On the other hand, we like to point out our perspective of how we want to remain good corporate citizens within Ontario.

Mr. Chairman: We are now going to hear from the Canadian Life and Health Insurance Association Inc. They gave us exhibit 54, which members of the committee received some time ago. Exhibit 54 is summarized on page 7 of your summary of exhibits. We have with us Gerald Devlin, president of the association; Robin Leckie, senior vice-president and chief actuary at the Manufacturers Life Insurance Co.; and James Witol, vice-president, taxation and research, of the association.

CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION INC.

Mr. Devlin: Thank you for that introduction, Mr. Chairman. You saved me from having to do that for my colleagues. I might just point out that Robin Leckie is sitting at my immediate right and Mr. Witol is on my far right.

I will just take a minute or two to say how thankful we are to be invited to make this appearance in front of your committee and to participate in this opening up of the budgetary process. We have had the good fortune in previous years to have been invited by the Treasurer to attend and have a prebudget consultation, and we are pleased that this is the ongoing process and that we will continue to be given the opportunity to do that.

Looking at our submission itself, which I hope everybody has been able to get a copy of, we structured it fairly simply. It is very selective and targeted to two specific areas. In the introduction on page 1, we have highlighted very briefly our association and what it is. In paragraph 2 of the introductory comments, we have tried to give you some key financial perspectives and a profile of our industry, in paragraph 3, to talk a little about us as employers and, in paragraph 4, to talk about us as international players in the marketplace.

Carrying on from that on the succeeding pages are two very large items of interest to us in the area of taxation. The first is the premium tax, which we now have in our industry in this province. We have some comments directed to that issue. The second large issue is the retail sales tax, with which we

are not currently being taxed in this jurisdiction. We raise it now as a matter of concern, because a sister province has seen fit to introduce it, has repealed part of it and is in the process of repealing the balance. We feel it is appropriate to bring that forward because we feel it is inappropriate.

That is the structure of our brief, and perhaps what we could do is to have Mr. Leckie, who is chairman of our tax policy committee, highlight the areas of the insurance premium tax and the retail sales tax for you. Either during Mr. Leckie's presentation or after he has concluded, the committee may wish to ask questions. We are certainly at your pleasure, whichever way you want to proceed.

Mr. Chairman: Perhaps Mr. Leckie could carry on then.

Mr. Leckie: I think it will be quite clear from our brief that our industry does not consider it has any major issues with Ontario at this time, nor does it assume Ontario has any major issues with our industry.

Mr. McFadden: You never know.

Mr. Leckie: We never know. As an aside, and this was triggered a little bit by the previous presentation, I would like to point out that the life insurance industry in Canada and in Ontario has been considered to be a pre-eminent industry throughout the world. Canada is looked to as a leader in life insurance.

We have traditionally been an exporter of insurance. Many of the major companies have operated throughout the world, particularly throughout the US, and they have been able to compete effectively. We expect to continue to compete effectively. We have had no trade difficulties with the industries in other countries and do not expect to have any in the future. We have no problem in competing with other companies, and that is partly because of the expertise that has been developed in Canada and here in Ontario.

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The province levies a premium tax on premiums paid for life insurance policies in Ontario. That tax is two per cent. I do not know how long it has been two per cent, but certainly longer than I have been with my company, which is more than 30 years. It is two per cent in every province in Canada with the exception of Newfoundland and it is two per cent in every state in the US.

You may be interested as to why it is so uniform. The insurance industry typically provides insurance through rate manuals, with the rates varying by age, but the manual is applicable across all provinces. Within the US we would have a separate manual, but it would be applicable across every state. If a province were to increase its premium tax, that would require an additional manual for that province or it would require some kind of surtax.

In order to avoid that cost being subsidized by the policyholders of other provinces and other states, individual states in the US have imposed retaliatory taxes. If, for example, Ontario were to consider raising the tax to three per cent, as I think was once considered some years ago, the states that operate in Canada would apply that same tax in their states against the companies who are headquartered here in Ontario.

That retaliatory tax has been exceptionally effective in maintaining an

even premium tax. It is a very serious issue should any province, or state for that matter, decide to increase it. We would ask you to consider decreasing it at some time, but we are not so naïve to believe you would. The retaliatory tax also has the effect of cutting the reduction on the downside as well.

Mr. Taylor: It just takes one.

Mr. Leckie: That is right. We are though at a competitive disadvantage with some competitors who are not life insurance companies, like Blue Cross or other companies that are providing services in group insurance, health benefits or dental benefits.

I think perhaps that is all I need to say. The submission also covers the possibility of sales taxes applied against life insurance. Unfortunately, the retaliatory tax also applies.

We are also a little concerned about a possible business transfer tax emanating from the federal level and passing through the province, and whether that might attract a retaliatory tax. For your information, we have been supplying information to the Department of Finance in Ottawa on the issues that might be associated with a BTT and they have received that, as well as any other issues affecting the income taxation of the life insurance industry. We have been in communication with Ottawa.

I believe those are the major issues or points that were in our brief. Those are the reasons why we do not think there is an issue with the province, but perhaps the questions will indicate otherwise.

Mr. McFadden: One question I had concerns the percentage of your business written abroad. How much of the insurance written by members of your association in round figures would be in the US or other countries?

Mr. Leckie: I think there is a figure in this brief that says 37 per cent of the premiums are outside Canada. In my own company, it is more like 65 per cent. Of the business outside Canada, I would guess that 80 per cent or 90 per cent of it is in the US. There are really only two companies operating outside the United States and the United Kingdom, ourselves and Sun Life. There are only six companies operating in the UK, but there must be 10 or 12 companies operating in the US with very significant volumes.

Mr. McFadden: Do you face any significant hurdles in terms of breaking into the American market now?

Mr. Leckie: I would think a new company going into the American market would have a very difficult time, but not because of any trade restrictions.

Mr. McFadden: Just the scale.

Mr. Leckie: Just starting up a life insurance company.

Mr. Devlin: As a matter of fact, Mr. McFadden, maybe you and the committee are interested: We have had an agreement that we reached with our sister organizations in the US representing the life and health insurance business there. It was signed by the chairman of our association, by the chairman of the American Council of Life Insurance and by the chairman of the Health Insurance Association of America and has been supplied to the two trade negotiation teams, both for the US and for Canada, indicating clearly that we

feel we have reasonably free trade in our industry now, at least between Canada and the United States.

We think it is extremely important for the markets Mr. Leckie has been mentioning of our Canadian companies in the US. Companies of his size attract a sizeable amount of their current business from that country. We are very pleased that exists. We hope it will continue to exist and we will not lose out in those markets because of some adverse action on the part of the US government.

Mr. McFadden: I think you are the first delegation that has come to us in three weeks of hearings whose thrust in its brief is basically to tell us to do nothing, just to leave things the way they are. Everybody else has come in with major presentations about giant increases in expenditure we should get involved in or cuts here or major thrust changes. I find it interesting. You are the first people I can recall, of all the witnesses, who urge us basically to do nothing, just not to upset the applecart.

Mr. Chairman: Did you advise Michael Wilson before his February budget?

Mr. Devlin: Actually, in some ways I suppose we have been a little selective in our presentation, Mr. McFadden. We have at times raised the prospect in such areas as health care costs in the province, and we applauded the government in its approach several years ago towards what are referred to as HSOs, health service organizations, in an attempt to cap health costs by taking a capitation approach to health services. I think that is one way that is an innovative way.

We did not feel we wanted to stray from the two very fundamental things we thought would really be bothering this group and would bother us if there were any changes made in it. We stuck very selectively to those, but we do have broader interests.

Mr. McFadden: A witness who appeared here yesterday, Dr. Clive Mortimer, whom you may know, made an interesting presentation to us on concerns he has about the rising health care costs and the ability of the public sector to sustain the increases we are likely to be facing. He also pointed out certain problems now in existence, even given the fact we are spending a third of the budget or approximately $10 billion on health care. He suggested that Canada was the only jurisdiction in the world that was attempting to meet all health care costs. He pointed out that in Sweden they actually do have private health care, and as far as China goes, apparently the patients there do their own laundry and cook their own food or get the family to bring it in for them.

Do you have any feelings about whether you could see any future role for members of your association in the health care field in Canada? Do you have any views on that matter? That is a pretty broad picture. I am sure your industry must have considered what is happening outside in the world.

Mr. Leckie: Of course, the industry did provide a lot of insured health care services many years ago, and there are still areas of health care that are provided, disability income and other services. A number of life insurance companies, through subsidiaries or holding companies, seem to be getting into the nursing care homes, old age homes in one form or another. I would look upon that as ancillary.

I certainly think the industry would be interested in discussing ways

and means of making the whole health care system more effective, but I imagine it is highly unlikely we are going to move too far away from a public system, which we have right now. There might be one in which there might be more participation on the private side to make it more effective.

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Mr. McFadden: The point he made, and this is the final point I will make, was that there is no incentive in the current system to economize or to do things, not in a poor way but in a cost-effective way to deliver the same service. We have some examples of that. The HSO is one, but he was also talking about this other thing--I cannot remember the initials now--that had been tried in the United States. His worry was that if we do not do something soon, we might have runaway costs.

Mr. Leckie: I think he is right but I am expressing that as an individual.

Mr. Devlin: They have some preferred-provider organizations developing in the United States in conjunction with the insured plans. That is definitely a cost containment mechanism and it is working very effectively in the US. I agree with Mr. Leckie; it is very difficult to believe that Canada would upset its whole public health system at this stage, but HSOs have one very fundamental and good approach that does not upset that. It merely is a different way of delivering the services and has within it the seeds, if the clinic delivers effectively and efficiently, to reap the rewards for having done so, because the whole thing is based on a per capita level of cost as the Ontario health insurance plan rate is charged across Canada. I think that is a very effective way. It is one way. As Mr. Leckie said, we would be willing at any time to open up a discussion about that in any way that we could be helpful in those areas.

He mentioned an area I should make sure you are aware of, the income disability area. That is another place it is important to consider. We now are engaged in a discussion with a federal-provincial task force on looking at the prospects for a plan across Canada on disability income for everyone, at least for employers of certain levels of employees. We are very pleased to be in participation. They are considering some private sector options for the delivery of those services. I think that is going to be one very big area that might be of some very serious help in the future.

Mr. Foulds: I have two questions. Do you have a figure for the total amount of taxation paid by the insurance industry to the province?

Mr. Leckie: Are you talking about our premium tax?

Mr. Foulds: No, the total amount of taxation.

Mr. Leckie: I do not have that figure.

Mr. Foulds: Do you have a figure for the amount of corporate income tax paid?

Mr. Leckie: I know that the total corporate income tax payable at this time by the life insurance industry is fairly low, and it is under discussion with the Department of Finance as to the reasons why. Some of the reasons are a problem with some deficiencies in the law and we have advised the minister of the deficiencies. Most of the reasons deal, though, with the way in which the taxation applies.

For example, gains and losses on bonds are a fully taxable item to the life insurance industry. Up until about two or three years ago, there was nothing but losses as interest rates were rising. Any bonds sold would yield a much lower amount than what had been paid for. Those losses were passing right through into the tax system. Currently, with the fall in interest rates, that has reversed and the problem is beginning to restore itself.

The other factor is the total pass-through of corporate dividends which has an impact that the federal government now is examining. Those two, plus the deficiencies and the definition of Canadian income have led to relatively low income taxes by the life insurance industry and a relatively low amount passing through to the province.

Mr. Foulds: The problem is both at the federal and the provincial levels because of the definition.

Mr. Leckie: Yes.

Mr. Foulds: You would have to clarify the definition at the federal level first before you could--

Mr. Witol: The province is going to pick up the federal definition in general, so if you fix it at the federal level, it will be fixed at the provincial level.

Mr. Foulds: Let me put this crudely. Does that mean the federal government is going to start collecting more corporate income tax from the insurance industry?

Mr. Leckie: I cannot believe that tax reform, as it will be proposed, will not collect a great deal more.

Mr. Foulds: From your industry.

Mr. Leckie: It will, yes. What we want, of course, is to collect a great deal more from the banks, the trust companies and all the other companies that we are--

Mr. Foulds: As long as it is competitive, you do not mind.

Mr. Leckie: As long as it is evenhanded and is not retroactive, we have no problem in paying our fair share.

Mr. Foulds: You said it was fairly low. Do you have any idea what the figure is? What we are obviously interested in, in looking at an Ontario budget, is the revenues that come to us from various sources.

Mr. Devlin: We do have a figure for the premium tax that we can give you.

Mr. Foulds: I think we have that here.

Mr. Devlin: Fifty-four million dollars?

Mr. Foulds: Yes.

Mr. Leckie: It is the total federal income tax. The last figure I saw--this goes back several years--was $30 million or $40 million. The proportion of that coming through to Ontario would be about $5 million?

Mr. Witol: No, it would be a third to a half.

Mr. Foulds: So it would be about $15 million to $25 million, somewhere in there?

Mr. Leckie: It certainly would be no more than that.

Mr. Foulds: But you are indicating that the industry is actively advising the federal government at present as to ways in which it could--

Mr. Leckie: Our task force has met with the federal government. We are quite prepared to work with them, and they know that, in assisting in overcoming the issues that exist and in understanding the problems before they propose an alternative that does not work.

Mr. Chairman: Any other questions? Thank you very much for your help. We appreciate it very much. I am sure your comments today will be considered when we report to the Treasurer.

Members of the committee should note that they have received, as I indicated they would, copies of the report of the federal committee on credit cards. There is material there that should be considered by the provinces; it is in our area of jurisdiction, I am told. I have not had a chance to go over it myself yet.

We will be dealing of course with Bill 116 next week. You have copies of Bill 116 that include the minister's proposed amendments, which will be presented by the minister on Monday afternoon. It is my view that we can deal with it clause by clause with that document as long as we have it side by side with the bill as it now stands after second reading. I do not know whether the opposition parties particularly have any problem with that. If there are amendments to come from the opposition parties, I hope you will not want it all printed up that same way. It does not necessarily mean you are getting any advantage, because it is already printed up. Is that all right?

Mr. Foulds: Did you say we were hearing from the minister on Monday afternoon?

Mr. Chairman: I am sorry; Tuesday afternoon. On Monday afternoon we are writing.

Mr. McFadden: The minister wanted to participate in the writing of our report.

Mr. Chairman: All right. Meeting adjourned.

The committee adjourned at 3:28 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

THURSDAY, MARCH 26, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Manufacturers' Association:
Hutchinson, J., Chairman, Taxation and Financial Policy Committee; Director, Taxes, IBM Canada Ltd.
Denommé, R., Senior Economist
Denholm, V. R., Vice-President, Ontario Division

From the Urban Development Institute of Ontario:
Greenbaum, L. I., Chairman, UDI Provincial Committee; Executive Vice-President, Runnymede Development Corp. Ltd.
Finch, Chairman, UDI Finance and Tax Committee; Partner, Price Waterhouse
McLean, B., Partner, Price Waterhouse
Wronski, W., Senior Adviser

From the Ontario Home Builders' Association:
Cochren, T., President; President, Tommar Construction Co. Ltd.
DiIorio, A., Second Vice-President; President, Alterra Developments Ltd.
Bassel, J., Second Vice-President; President and Owner, Arcadia Group Investments Ltd.
Heron, H., First Vice-President; President, Heron Homes Ltd.; Executive Vice-President, Equity Development Group Inc.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, March 26, 1987

The committee met at 10:05 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: I see a quorum. We have a fascinating day today. It is our last day of hearings and after today we have to know what we want for the people of Ontario.

To review the agenda for you, the Canadian Manufacturers' Association will be speaking to us right now. They have a new brief which is in front of you. Is it the same brief that was submitted earlier to us? Yes, it is. It is exhibit 53 and is summarized on page 15 of your summaries.

The Urban Development Institute of Ontario is also going to be with us and it has not given us a brief yet. The Ontario Home Builders' Association have a brief which is in front of you. This afternoon you will be dealing with the Wine Council of Ontario and the Ontario Federation of Labour.

Let us get started with the Canadian Manufacturers' Asssociation. The spokesperson is Jim Hutchinson, director of taxes at IBM. With him are Vern Denholm, vice-president of the Ontario division of the CMA; Eric Owen, manager, taxation and financial policy, CMA; and Robert Denommé, senior economist for CMA.

CANADIAN MANUFACTURERS' ASSOCIATION

Mr. Hutchinson: I am here this morning in my capacity as chairman of CMA's taxation and financial policy committee. We are very pleased to meet with you to give you our views on what we believe the province should be looking at from a fiscal viewpoint. I understand that you have already received a copy and a summary of our submission. What I would like to do initially is open with a brief outline of the major points contained in it.

As I am sure you all know, manufacturing is very important to the economy of Ontario. It has been a key contributor to the economic expansion the province has enjoyed in recent years. From a manufacturing point of view, demand has been relatively good in both domestic and export markets. Most importantly, capital investment in new technology has been high. Despite all that good news, the whole of manufacturing really remains very volatile. Our demand is very much dependent on the US economy. That is showing some signs of weakening. Of course, international competition for both our foreign and domestic markets is really intense. We are competing head to head with our competitors.

In our view the Ontario government can assist us by really assuring a sound, stable economic environment that will support the continued growth of the Ontario industries.

Turning to the service sector, there has been quite a bit of focus in it recently and on the employment it generates in Ontario. Of course, it is

certainly true that the service sector is a major source of employment and it does offer a high potential for future growth. However, equally important is recognition that a critical factor in the growth of the service sector is wealth creation within the province. In Ontario, much of the underlying wealth that supports that service sector is derived from manufacturing and processing. I suggest that without a strong manufacturing and processing sector, the growth of the service sector would be severely curtailed.

From our view, it is very important that the Ontario government recognize this and take advantage of it by actively promoting and encouraging continued growth in manufacturing and processing.

Touching briefly on some of the economic matters that are important to manufacturing and processing, the cost of workers' compensation has increased dramatically over the past few years. While there are a lot of different reasons for that, it is our view that the whole system is in urgent need of revision to improve both its effectiveness and its affordability. Each time costs increase, there is a direct negative impact on industry's international competitiveness, which will ultimately cost jobs in the province.

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Corporate income taxes continue to increase both federally and provincially through higher rates and elimination of incentives and deductions. Also, the federal government has embarked on a program of tax reform that potentially could result in additional tax burdens on the province's manufacturers.

In this regard, it is important to recognize the reform measures that have already been implemented in the United States and the United Kingdom, which are our major trading partners, where corporate tax rates have been substantially reduced. We strongly recommend to the Ontario government that it should participate fully with the federal government in the reform process and ensure that the manufacturing and processing sector is not unduly impacted by the reform measures.

One positive step that could be taken, even without reform, is that each jurisdiction could agree not to tax incentives provided by the other party. For example, federal research and development centres are very important to Ontario industry in promoting research and industrial development. However, the Ontario government currently taxes them as income for Ontario corporate income tax purposes.

We are concerned about the provincial deficit--the federal one is a concern too--because ultimately deficits have to be paid for through taxation and, in themselves, cost tax revenues that need to be diverted to service the growing debt. Our recommendation is that the province should take immediate steps directed towards eliminating the current deficit and reducing the accumulated deficits from prior years.

Finally, I draw the committee's attention to the proposed legislation on pay equity. While there is no disagreement with the principle of pay equity, we feel that a definitive cost study should be carried out before that particular piece of legislation is enacted.

That concludes my remarks. We will be pleased to answer questions the

committee may have or to go through the details, step by step, of our submission, as you would prefer.

Mr. Taylor: I was interested in your reference to the service sector, the growth that is taking place and the number of jobs that are being created in that area, as opposed to in manufacturing. I think it is on the increase. I interpreted your remarks as stating that the service sector is dependent upon the manufacturing sector, the logic being that the manufacturing sector creates wealth, and it takes that wealth to support the service sector.

Will you comment on that? I am putting this to you in the light of a report we have had from Radwanski and others who have brought the message that, presumably, you can create wealth by expanding the civil service or any other type of service sector. It frightens me. Maybe we can all become wealthy by taking in each other's laundry. I do not know. Can you expand on that a bit for me?

Mr. Hutchinson: Let me make a few comments and my colleagues may want to add something further. In his report, Mr. Radwanski recognizes in the opening segment that one cannot ignore manufacturing and processing. In fact, that is a key factor right through the Ontario economy. Of course, then he goes on to the specific subject he was addressing, which was the service sector.

In many ways, the manufacturing and processing sector is modernizing. It is becoming much more productive with all the high-technology capital and processes that are being introduced into the process to make it more productive. A lot of service elements, for example, computer-assisted design and computer-assisted manufacturing, play a key role in manufacturing becoming more productive, but they also have a lot of spinoff in terms of service sectors such as software industries, telecommunications and data processing, all of which are key to that piece of technology.

Mr. Taylor: Presumably, that must ultimately put some substance or a commodity on the market at a more competitive price.

Mr. Hutchinson: That is correct, but it begins by helping manufacturing to be more productive and more cost-competitive. That in itself, as Mr. Radwanski pointed out, is capable of being exported as a service.

Equally, however, if we do not have the basic manufacturing process in Ontario, there will be no industries to be serviced by the service sector, or essentially, for what we call the grass-roots development and initiation of the service industries to begin. Look at the fairly simplistic examples. If one took Sudbury and removed Inco, I suggest there would be very few service industries left in Sudbury. If you look at Hamilton and remove Dofasco or Stelco, you would have the same result.

There is a strong interrelationship between manufacturing processes and the service sector and each one contributes to the growth of the other. But the underlying wealth in terms of the economy will still essentially come from manufacturing and processing.

Mr. Taylor: It is the production of some material goods that is critical to the support of the service sector.

Mr. Hutchinson: Yes.

Mr. Taylor: I have another, possibly a comment more than a question, which sometimes happens in this committee.

Mr. Chairman: Put a question mark at the end and I will ignore it.

Mr. Taylor: I can put anything physically.

Mr. Ramsay: That is for sure.

Mr. Taylor: You mentioned workers' compensation. I must say, by way of information, the standing committee on resources development has introduced a resolution that I, for one, wholeheartedly support, in terms of scrapping the existing system and taking a look at some other method of delivering that service that is more equitable in the light of current thinking.

Mr. Haggerty: You follow my resolution.

Mr. Taylor: I throw that out to you as possible encouragement; I do not know. It has been a concern of mine for many years, but nothing has happened. Anyway, I think there now is some growing support, even on the part of my New Democratic friends, if I am not mistaken, that might prompt a complete overhaul of that service.

Mr. Hutchinson: We would certainly endorse a full review and revision of it.

Mr. Haggerty: I was looking at the summary of the brief we have here. One of the recommendations was, "That the government present a medium-term strategy in the budget to ensure continued reduction in both net cash requirements and the unfunded debt as a percentage of GPP." Then in recommendation 5, it says, "That the Ontario goverment reduce its corporate tax rates to offset the federal elimination of three per cent inventory allowance and investment tax credit."

I am bit lost. I am looking for an answer in this area. One minute you are suggesting the government should be retiring its debt and the next minute you are saying to reduce taxes on one side. Without taxes, how are we going to reduce the debt?

Mr. Hutchinson: I understand your point. In general, in our view, the deficit should be focused on being reduced. Of course, there are many aspects to deficit reduction, among which may be some prioritizing of programs in terms of expenditures. Other forms of taxation, of course, play a part, including corporate income taxes, personal income taxes, provincial sales taxes and capital taxes. They are all part of the revenue source.

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Mr. Taylor: Maybe a dissertation on supply-side economics.

Mr. Haggerty: Supply and demand.

Mr. Hutchinson: The point we made here is that every time there is a tax increase, industry becomes less competitive, especially with what has happened south of the border, with a very dramatic reduction of tax rates. In our view, when we look at the country as a whole, there is a strong

concentration of manufacturing in Ontario. It is Ontario that has been hurt by the federal measures. We feel the province should examine that, understand the impact on industry and determine a means of trying to redress that impact.

Mr. Haggerty: You said Ontario is being hurt by the federal measures. Did I hear that correctly?

Mr. Hutchinson: It is a federal investment tax credit that is being removed.

Mr. Haggerty: In what areas?

Mr. Hutchinson: Manufacturing equipment.

Mr. Haggerty: You are talking about production equipment?

Mr. Hutchinson: Production machinery. It is being removed over three years by the federal government. That has increased taxation on manufacturing. A three per cent allowance was removed as well. It was available to all sectors of the economy, not merely manufacturing. It certainly helped manufacturers. With their elimination, costs increase. We suggest that should be re-examined by the province.

Mr. Taylor: Would that be interpreted as a subsidy of some sort? I am thinking of the trade negotiations going on now. As I understand it, your argument is that if the federal government eliminates it, then the province has to respond in some way to make up for it in order to keep Ontario manufacturing on an even balance.

Mr. Hutchinson: On a balance, yes. I do not believe it would be looked on as a subsidy as much as a tax policy.

Mr. Haggerty: But on the American side, they may look at it as a subsidy to industry. In the trade talks that are going on now almost anything--mention subsidy and they feel you are playing favouritism with industry, the agricultural sector or any sector.

Mr. Hutchinson: Generally speaking, direct tax matters are not used as subsidies, but equally in the United States, there are a number of measures to incent industry.

Mr. Haggerty: Yes, but they do not want to hear about that.

Mr. Hutchinson: As an example, the foreign sales corporation legislation allows US exporters essentially a tax-free profit on a portion of their revenues. American industry is making full use of those. Certainly, while it has been questioned by the General Agreement on Tariffs and Trade, to my knowledge, it has not been attacked as subject to countervail.

Mr. Taylor: I was thinking that the taxing systems of Canada and the US have not become more similar in the light of the opening of trade; if your direction is going towards free trade, then you would want to bring your tax regimes more in line. I wonder whether this was a part of some overall tax reform system that might bring the two regimes more in line. I do not know whether you have any information on that.

Mr. Hutchinson: Not specifically. Clearly, we have had no details as to what is being planned by the federal government on tax reform.

Mr. Chairman: I think as long as countervail is in place, there is always a danger that an American producer is going to allege it is a subsidy.

Mr. Haggerty: I guess it will be at the summit meeting shortly.

Mr. McFadden: I have three areas I want to explore. One is this business about wealth creation. We have gone back and forth discussing this issue with a number of witnesses. Mr. Radwanski was one of our early witnesses, so he sort of set the tone here. To some extent, we have been going back and forth, trying to consider what might be done, if anything, to assist different sectors. The general feeling we have been getting--for instance, the thrust of the Board of Trade of Metropolitan Toronto yesterday--is that the service sector seems to be doing fine and does not need any incentives, unlike manufacturing which perhaps needs some assistance from time to time from government.

One issue we have been trying to wrestle with is whether, in fact, service creates wealth at all. It is not a major budget matter, but it can underline nevertheless what you want to do in terms of policy. About 150 years ago, a physiologist argued that manufacturing did not create wealth, but that wealth was only created from the ground. If you did not grow crops or dig it out, no real wealth was being created from there. Over the last 100 years, economics has evolved and now we realize that manufacturing creates wealth, as does agriculture and mining.

I wonder if we are not in a similar situation now where there is a conceptual breakthrough. We somehow have to come to understand how wealth is generated and how we can quantify it. I think there seems to be a problem right now. We know that X millions of people work in what is defined as service. There is a grey area: we wonder whether something is service or manufacturing. How interrelated is it with manufacturing? It seems we are into a definitional problem. What is service? What is manufacturing? How do they interrelate? Some jobs are pure service; some jobs are manufacturing and service. I do not know if you have come up with any conclusions on that.

I wonder if you have any ideas as to what percentage of the service sector you think is actually so intimately related to manufacturing as to be almost indistinguishable. We say that 85 per cent of all new jobs are coming in the service sector. Have you any figures to indicate what percentage of those jobs could be considered as in manufacturing because of their reliance on manufacturing?

Mr. Hutchinson: I do not have any statistics. I am not sure whether we have a total on that. Let me come back to your first point, though, and I think we may evolve into that.

Fundamentally, wealth is created by trade. You sell something and you get your fundamental wealth. What Canada sold 150 years ago was essentially the stuff coming out of the ground. Today, what we have been selling is essentially manufactured goods. What we have been buying more of, and one reason our economy has suffered, is manufactured goods.

To the extent that the service sector can create wealth, I suggest that this wealth is created where that service can be exported and, indeed, there is a lot of potential in any of the service sector for that to happen. The

knowledge bases we have developed are capable of being exported, and they will create wealth. Many of the underlying parts of the service sector, though, will service purely the domestic economy and will in themselves not create wealth.

The latter section really has been paid for by the wealth that is generated. Today, most of that wealth is generated through manufacturing. In the future, there could well be more of it being generated by the parts of the service sector that are capable of being exported. However, the base for the growth of those service sectors today is still the domestic market. For there to be any growth at all there has got to be a reason for being in Canada. That comes back to our current wealth-creating industries. As they grow, they reach the point where they have tangible experience and a tangible product, a service product albeit, to sell abroad, and they can do it.

I do not know if that answers it.

Mr. McFadden: That does answer it. I think you are suggesting how we quantify it, which I find interesting.

Mr. Denommé: I would like to add to what Mr. Hutchinson had to say. When you look back over the past 20 years and you look at the increase in economic output doubling, at the same time exports and imports have quadrupled. In order for the economy to increase its output twice as much, it had to have that quadrupling of exports and imports. That interchange is very important, and it is probably more important in the Ontario economy than in many others.

In the creation of wealth, we are looking at a major part of that export and import being done by manufacturing firms. When you look at the structure of the economy and the types of businesses competing, those in the international market and those in the national market, the provincial markets and the local markets, you see that while you may not get a significant amount of net employment generation from the international firms, because they are very competitive in a dynamic process going on of global competition, that in itself creates most of the wealth. The local firms, which depend on the driving force of the trading mechanism, are the service operations and the firms that feed into that process.

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It is, therefore, very important to have a strong international trading base for the Canadian economy, and right now the manufacturing sector is going through a tremendous restructuring process to continue to be competitive. While the Ontario economy is growing fairly strongly, that transition is taking place. Most of our firms are feeling it in terms of having to adjust employment levels, even though output has increased quite substantially. The wealth that is created there is a driving force to create wealth in some of the other local businesses, which tend to be very much service oriented and do create wealth, but the major part of the wealth is created in that trading aspect.

The other important point is that in this structural adjustment that is taking place, the manufacturing sectors, in order to be competitive, are focusing a lot on their fixed costs versus variable costs. In a sense, they are trying to get a better control of their total competitive cost structure. In that sense, there is a significant amount of contracting out or spinning off of parts of the operation that can tend to be service oriented and get identified as services.

I do not have any concrete numbers on this, but I know when you look at the production process in the manufacturing sector, that accounts for maybe a bit over 50 per cent of the total employment base in the manufacturing sector. The other 50 per cent is made up of computer-oriented service operations within the manufacturing framework, janitorial services, maintenance services and all the other things that are part of the production process but, from time to time, have been spun off in an effort to make the sector reasonably competitive. That process is an ongoing one, so we are getting a bit of a blip taking place in the service sector by a transfer of employment, but it is that wealth that is still being generated in order to feed into that process.

Mr. McFadden: I find what you were just saying interesting. You have a statement here which goes along with the statement you have made orally.

"It is the national and international market-driven firms that generate most net wealth creation in the economy. Since wealth is needed to generate permanent employment, the health of the local economy depends on the health of national and international firms."

I take it what you are suggesting here, and I gather this is the position of the association, is that the negotiations with the US right now to secure continued open access to the American market are vital to the future of the Ontario economy, as well as the General Agreement on Tariffs and Trade round and so on. You feel it is vital that we ensure, in the long run, that the world remains open for trade and that we retain access to the American and other foreign markets.

Otherwise, as I understand it, you are suggesting we would have tremendous dangerous and depressing economic effects on the Ontario economy if we do not get ahead with opening our markets and keeping them open abroad.

Mr. Denommé: That is correct.

Mr. Hutchinson: It is absolutely essential that we keep our access to the US market in particular. That is our largest market. Without that market for production exports, the Ontario economy would be severely damaged. Mr. Denommé, do you have more on that?

Mr. Denommé: When you are looking at this process that is going on and trying to link it to the trading environment and particularly to free trade discussions with the US and multilateral negotiations going on, the clear movement is towards a more global competitive environment. Even if you think the trading mechanisms are directly related to the US, with which Ontario does the largest percentage of its trade, the competitive pressures are created globally.

One thing that is very critical to the manufacturing process is that while we export, manufacturers are in a constant competitive struggle for imports or exports. There is a real inherent and dynamic process that goes on that forces us to be competitive, whether we are trading vis-à-vis the United States or vis-à-vis other countries. Clearly, we would like to have a stronger relationship and a stronger linkage in the North American trading environment, and I think that is what is trying to be accomplished in the trade arrangements.

Mr. McFadden: One of the situations that I have heard has started to develop as a result of concerns with US protectionism has been the decision of a number of companies in Canada to either locate manufacturing operations in

the US or plan to locate manufacturing operations in the US, because they do not want to lose the American market. They cannot afford to see it lost.

Yesterday, I heard from one of the presenters here from the Board of Trade of Metropolitan Toronto that a number of Japanese companies right now have decided not to locate in Ontario because they are concerned that access to the American market may disappear. Until such time as that issue is settled, they are choosing either not to locate here or to delay any plans to locate here. Is that something you have found among your members? I have met a number of people who have raised it with me. Three or four companies specifically told me their plans because of their worry about this. I am just curious to know how widespread this particular worry is.

Mr. Denommé: In some communications I have had with some of the member firms, the opposite process does take place as well, where some firms have approached the American parent, which has a product mandate in the United States or in the North American market, and have found that there are niches within that framework so they can also be competitive without having to pull a whole operation out of Canada per se. The subsidiary has a certain degree of autonomy which allows it to approach the parent corporation and say, "Are there niches in the US that we can fill?" So it is working both ways.

At this stage, it is certainly difficult to have a perception of where that balance lies. One of the positive things that is happening now is, while we have this discussion on some companies deciding maybe not to stay here, there is a considerable inflow of capital. The perception that Canada is an attractive place to invest begs one to consider the possibility that in the long term there may be a good, solid base here that people are visualizing.

In the short term, there are certainly concerns with the trade negotiations taking place, but in the longer term, investment money is flowing in. To me, that is a positive development that ought to be considered as well.

Mr. Denholm: If I can add to that, one item that is not very well understood, especially in regard to Ontario-owned companies, is that they are under tremendous pressure by the Americans to locate south of the border. The incentives given in New York and south are quite irresistible in some cases, and people are coming to us now and asking: "Do you think we should do this? What is going to happen in Ontario? What is the social benefit milieu here? Is it worth while staying?" We do not feel that it is not, but when we hear the kind of incentives that are available in the US, this pressure certainly exists.

Mr. McFadden: I could go on all day. I have endless questions. In essence, you are advising us that it is vital to Ontario to keep access to international markets, and we should get on with that process.

Mr. Hutchinson: Yes, completely.

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Mr. McFadden: One final item, very briefly. We talked about spending. You suggested to us that it is important that we reduce the provincial deficit, I guess that we eliminate it if we possibly can, given the current relative economic prosperity we have in Ontario; certainly prosperity in government revenues if nothing else.

In terms of spending priorities, where would you suggest we look? We

have received submissions over the past several weeks from a lot of organizations. A significant number of organizations have made your recommendation that we bring down the deficit. Let us eliminate it so that we will be in a better position in the next recession, whenever it should happen, to spend money on social services and all the other necessary spending we would have to do when unemployment starts to rise again. I do not like to be pessimistic, but we all know recessions happen some day at some time.

A lot of organizations recommended that we do something to ensure that the deficit is eliminated. At the same time, other organizations have come here, as you might expect, and suggested that we make massive spending increases--in the case of some, into the billions of dollars in everything from roads to education and health care. You can go through the whole list.

From your point of view--and I know the serious work you do in terms of looking at the economy--are there any areas we should be looking at in terms of priorities in our spending? I am not asking for specific items or specific departments; I am just talking in terms of the overall priority. If we are looking at making adjustments, what are the areas we should be looking at, either to maintain or to increase, in order to strengthen the province?

Mr. Hutchinson: We spent a lot of time on that one. We ultimately came to the conclusion that we are not competent to advise which programs should or should not be kept. You gentlemen receive far more information on it than we do, and I am sure you have a lot of difficulty with it also.

It is not one of the general priorities, all the things that may not suffer by being put off for a little bit; I do not know. I suggest, as in any other large enterprise, if I can use that simile, there will be things--in my own corporation there are always many spending priorities and, yet, we find there are always a number of things that we can prioritize. This will wait for a little bit and this will not, and we have to do the second long before the first. I suggest there are probably a number of those things in the provincial programs. I am not suggesting they are unimportant, but perhaps they are less critical in the short term.

The underlying concern on the deficit is that the public debt charges are growing. It is now costing 11 cents on every dollar to service that debt. In the next fiscal year, the federal government is going to spend something like 25 cents of every dollar it spends on debt service. It is not too many years ago that it was at 11 cents also. There is an underlying concern on our part that deficits have a habit of growing and getting out of control.

That was the background, if you like, to our recommendation. As opposed to cancelling programs or eliminating programs, it may, in fact, be possible to prioritize them within a specific time frame and reduce or extend the overall expenditures.

Mr. Taylor: The expensive programs are those that you just cannot delay. The health care system probably has more than a million claims a month coming into it. You cannot prioritize that kind of thing; you have to overhaul or reform in some way. Education is the same way. You have to understand the process and the system and what you are trying to accomplish before you can really suggest reform.

Mr. Hutchinson: And what might be feasible within that. For example, we talked earlier about workers' compensation. One of our underlying concerns about that particular program is that there is a huge unfunded liability, quite apart from the escalating costs that it has had in recent years.

Mr. Taylor: The unfunded liability is predicted to double. It is something like $5 billion or $6 billion now and is predicted to double before it levels off in accordance with the present projections.

Mr. Hutchinson: Deficits have a nasty habit of doing that.

Mr. Denholm: We have to look very carefully at the incremental costs of social programs that are coming down the board. In previous prebudget submissions, we have asked the government to apply one simple thing to anything it is going to do and come up with an honest answer on this. The bottom line is, can we afford it? With apologies to Mr. Laughren, in regard to the car insurance scheme of Mr. Rae, personally I would dearly love to have it because I am paying $3,000 in car insurance.

Mr. Haggerty: You are a person of high risk then.

Mr. Ashe: We know what kind of a driver you are.

Mr. Denholm: But if this is going to bankrupt the province, I would like to keep my job too.

Mr. Chairman: I have a supplementary to Mr. McFadden's question on the deficit and then Mr. Laughren can have a quick question.

Mr. Laughren: What do you mean by a quick question?

Mr. Chairman: You have a question.

Mr. Laughren: Thank you.

Mr. Chairman: Some people have suggested that it makes good sense to fund current expenditures ourselves, and then if necessary run a deficit for future expenditures, capital expenditures on things that are going to be used by future generations. Do you have any comment on that? Is that a rational approach?

Mr. Hutchinson: My suggestion would be that there may be circumstances where that is warranted. However, one has to recognize that in an ongoing economy, just as in an ongoing business, one will always have capital expenditures. As one grows, those capital expenditures will also grow but sooner or later will catch up. I strongly suggest it is much better to run both capital and current expense within a balanced structure on a current basis. That gives one maximum flexibility for the future. If there are nasty surprises or things that suddenly need huge amounts of assistance, at least one has the flexibility to do a reasonable amount in a short time.

Mr. Chairman: Maybe you would not go so far as to agree with a certain right-wing constituent of mine who says that we should not have paved roads in Kitchener because we have not paid off our deficit yet.

Mr. Hutchinson: I am not sure.

Mr. Chairman: Mr. Laughren, you have a lengthy question.

Mr. Laughren: No, I have a whole bunch of short ones. It is good to hear from the CMA. I can start off on a very positive note with a couple of things with which I agree. One is that I think the compensation system in Ontario is disgusting in the way it has been allowed to develop and run up its

unfunded liability. I think it is absolutely outrageous. I am with you 100 per cent in your assessment of the Workers' Compensation Board. Second, business pays for it, business runs it and business has allowed that unfunded liability to do what I hope no responsible government would allow itself to do.

Mr. Taylor: It is a government-mandated cost.

Mr. Ashe: They do not have a choice.

Mr. Laughren: Make up your mind. What do you want of the WCB?

Mr. Taylor: It is the government that runs it and directs it.

Mr. Laughren: I am agreeing with the CMA and the Tories are attacking me. I do not understand what is going on here.

Mr. Ashe: You agree with them but you are sticking it into them.

Mr. Laughren: No, not at all. I agree with you that the WCB is out of control. It is outrageous the way that has been allowed to happen.

Interjections.

Mr. Laughren: Mr. Chairman, I do have the floor, do I not?

Mr. Chairman: You have the floor.

Mr. Laughren: In conclusion, it is outrageous that it was allowed to happen with majority Tory governments. I find that outrageous.

The other thing I want to comment on very briefly is the whole question of wealth creation. I do not know how you separate the manufacturing of a truck from the driving of a truck, from the insuring of a truck, from the financing of a truck, from the education of the truck driver, kind of thing. I have never understood how you make those lines between the service sector and the manufacturing sector. Maybe my mind is not conceptual enough to grasp that, but I cannot do it.

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Mr. Denholm: I think what we are inplying is that if nobody manufactured the truck, the rest of the system would not be there.

Mr. Laughren: Right. I agree.

Mr. Hutchinson: There is an infrastructure that is export, which we talked about with Mr. McFadden. Wealth is created through sales, and to some extent, an export sale will contain elements of all the things you have mentioned.

Mr. Denholm: I would like to emphasize my point again that we have doubled the economic base by quadrupling our exports and imports. To me, if you do not have that dynamic process going, you are not going to get all these other parts. What we are saying is that it is the primary generator of wealth; there is wealth created in other sectors as well.

Mr. Laughren: We am not really differing on that. The other point is that I think, generally speaking, the Canadian Manufacturers' Association now

tends to support the concept of user fees. I am getting some pretty blank looks. I do not know whether they do or not.

Mr. Hutchinson: The operative word is "generally." We want to hear the rest of the question.

Mr. Laughren: As opposed to universality in a system, whether it is Ontario health insurance plan premiums or family allowances, that kind of thing. The CMA tends to do so. I am not trying to trap anybody. What has occurred to me is the incredible cost of policing the private sector. That always bothers me, whether it is the Ministry of the Environment or the Ministry of Consumer and Commercial Relations. I am wondering whether the CMA would support a user fee in that regard.

Mr. Chairman: There is another shoe. It has just fallen.

Mr. Laughren: No.

Mr. Ramsay: No trap has been laid here.

Mr. Hutchinson: I am not sure to what extent a user fee could be identified. Indeed, I am not sure in my mind, if one interpreted that as being a service, who the user would be.

Mr. Laughren: For example, policing the Business Practices Act, the Occupational Health and Safety Act and the environmental standards in the province, those kinds of things. The public pays to send out inspectors into the private sector and I have always found that offensive.

Mr. Taylor: And the public pays, incidentally, to police--

Mr. Laughren: Why is Mr. Taylor back in?

Mr. Chairman: It may be that CMA does not have a specific stand on that issue. That may be their answer.

Mr. Taylor: We have an Ombudsman.

Mr. Laughren: I do not think they need your help, Mr. Taylor.

Mr. Taylor: We have the Office of the Ombudsman which has to police the public service.

Mr. Laughren: I do not like that either.

Mr. Hutchinson: I would like to add a comment. There are many protective measures in our legislation covering many fields and they cover them for all of us in Ontario, not only industry but also the public at large.

Mr. Laughren: I agree.

Mr. Hutchinson: To that extent, I suggest that the public at large pays for them, including manufacturers and processors, through taxation measures. Indeed, the public at large is the user.

Mr. Laughren: Except there is an element of universality there that you might find offensive.

Mr. Denholm: I think what you are asking is, if we want to be crucified, would we care to pay for the nails?

Mr. Chairman: That is a beautiful way to end that, if I may. We are running a little overtime.

Mr. Laughren: May I have a concluding question?

Mr. Taylor: With that promise, sure.

Mr. Laughren: Does government have a responsibility if there is a vacuum in the industrial fabric of a jurisdiction? It could be Ontario or Canada or a state or whatever. If there is a perceived vacuum, does government have a responsibility to move in to what would normally be considered private sector turf?

I have one specific example, because I do not want you to think this is a trick question. The committee members will groan when I say it because they have heard it so many times. Ontario is the number three producer of minerals and the number one importer of mining machinery in the world. If government sees there is a gap and that import penetration is extremely high in a large domestic market, and that we are importing machinery from high-wage countries, by the way, not low-wage countries, in a situation such as that, is there an appropriate role for government to move in or do you think the marketplace has already determined that is the not right thing to do? It is a philosophical question.

Mr. Hutchinson: I suggest that for any part of the economy, as the government does today where it sees opportunities, there are many advisory boards established by the Ontario government and by the federal government to identify opportunities for manufacturers or for industries in Canada. I suggest that would be the vehicle to carry out such things.

Mr. Laughren: I agree. One time, when he was the Minister of Industry and Trade, Larry Grossman did a very wise thing.

Mr. Haggerty: He did not do too many of those.

Mr. Laughren: He did not follow it up, just so you do not think I am always partisan. There was some pressure put on him, but he got together the potential manufacturers of things like machinery and he got together a whole bunch of machinery that was imported. He said: "All these goods are imported into Ontario. Can you not do something about it because of the enormous deficit in mining machinery?" He laid it all out for them and I thought that was the right way to go. It was not intervention in the private sector. I do not think the private sector could object to that kind of tactic on the part of the minister. Yet nothing came of it; nothing ever happened. The marketplace determined that it was not appropriate to follow up. Anyway, that was the right way to start. I just do not think there was enough follow-up there.

Mr. Chairman: You have obviously got the boys jumping this morning. Thank you very much. It has been a very informative presentation. We appreciate it. I think you will probably see aspects of what you are representing to us in our report to the Treasurer (Mr. Nixon).

Mr. Ramsay: Are you looking for a new report?

Mr. Chairman: The next presenter is the Urban Development Institute of Ontario and the brief is in front of you. Spokespersons for the UDI include Lou Greenbaum, the chairman. Mr. Greenbaum, if you will have a seat, perhaps your other representatives can sit around you to the extent that there is room. Mr. Greenbaum is the chairman of the UDI provincial committee. I understand we also have with us Ron Finch, chairman of the UDI finance and tax committee. On Mr. Greenbaum's left, as we face him, is Stuart Smith, immediate past president of UDI.

Mr. Greenbaum: Stuart Smith is not here.

Mr. Chairman: All right. There are also Bruce McLean from Price Waterhouse and Wojciech Wronski, senior adviser of UDI Ontario.

URBAN DEVELOPMENT INSTITUTE OF ONTARIO

Mr. Greenbaum: I ask your indulgence throughout my talk because I may be coughing a little.

Our institute welcomes the opportunity to present to you our views on the paper, Economic and Fiscal Review, prepared by the Ministry of Treasury and Economics as well as on a variety of other important matters to be considered in the upcoming provincial budget. We have always had the opportunity every year, prior to a provincial budget, either to attend a forum like this or to meet with the Treasurer and his immediate staff to make submissions. For that, we are very grateful.

Certainly, as an industry, we are pleased with the strong growth in the Ontario economy exhibited in the last couple of years, and as noted in the November 1986 paper, our industry has obviously played a key and very vital role in this growth.

The Urban Development Institute's membership comprises development companies, building, construction and associated consulting firms that carry out on a day-to-day basis the task of investing, building, maintaining and managing the province's housing stock, office, commercial and industrial buildings. In the last decade, the value of our industry's output has represented between 10 to 15 per cent of the gross provincial product. We employ three times as many people as the automotive sector of the economy. In short, the UDI is a wide representation of the sectors of our society that are in the front line of economic growth and expansion. From this position, we would like to draw your attention to the variety of issues and matters contained within this submission.

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The quarterly update to December 31, 1986, of Ontario Finances prepared by the ministry indicates that revenues for 1986-87 will exceed the budget by nearly $1 billion. However, the large revenue increases, which reflect the expanding economy, are nearly offset by expenditure increases, with the result that an operating deficit of some $200 million is expected.

We are pleased that the operating budget is substantially reduced from prior years but are concerned that the net cash requirements for 1986-87 are expected to be $1,349,000,000. We would strongly urge that the provincial government exercise both financial restraint and a better targeting of its spending programs, thereby controlling its provincial debt.

I think that last phrase is one that is very important to our industry as, so to speak, outsiders looking in who have views from time to time as to where we feel the dollars are better spent and the greatest impact is achieved for that expenditure. In our opinion, the advantages of prudent financial management as it relates to the province's debt costs and credit worthiness provide the greatest benefits to Ontario residents at large.

The Economic and Fiscal Review paper indicates that the housing sector will remain very buoyant, at least for the rest of 1987. All expectations are that it will continue strong in 1988 through to 1990. Naturally, we are pleased with the expansion of the industry in the last 18 months and the expected market for the balance of this decade. However, this dramatic change in our industry has not been accomplished without some very major problems and concerns that we believe need the government's immediate attention.

First, assistance to municipalities in rapid growth areas: Certain municipalities have recently experienced an extremely high increase in their development activities, and this created greater difficulties in the industry because of their method of funding this expansion and their limited personnel resources to expedite the planned developments.

We strongly recommend that the province provide assistance to municipalities for major infrastructure works--highways, roads, sewers, schools and related services--in acknowledged growth areas. Such assistance will help expedite the provision of fair and reasonable cost housing to the citizens of Ontario. If I can add a point to that, it is not just housing but also reasonably priced and well-located industrial lands as well.

Second, municipal impost charges: We again suggest that the government consider financing an incentive plan whereby municipal impost charges would be refunded on rental accommodation developments, particularly social housing.

Third, rationalization of the planning process: We strongly support the recent program announced by the Ministry of Municipal Affairs whereby the current planning process will be rationalized. This matter is of the highest priority to the industry if it is to meet the current demands of the public for fair and reasonably priced housing. That area is one where we have been invited, along with other industry sector groups, to work with Municipal Affairs to attempt to come up with a program that would rationalize and perhaps better streamline the planning process.

Four, shortages of material and skilled labour: The ministry's paper makes reference on page 14 to the delays in closing house sales in 1986 as a result of both labour and material shortages. We are concerned that these factors are still evident and strongly recommend that the province express its concern to the federal government about immigration and migration policies in respect of the skilled construction trades. As an example, a lack of bricklayers and carpenters in particular exists, and consideration should also be given to reviewing current training and assistance policies, with a goal of ensuring Ontario's programs keep in step with our industry's growth.

To overcome these shortages, we believe the province's role should be to foster economic growth and provide the confidence that capital investment requires for these industries to expand. We believe a lower provincial deficit will offer that confidence and thereby further the economic growth of the province.

Dealing with the area of sales tax, we understand that at the recent

meeting of provincial treasurers and the federal Minister of Finance, the possibility of an integrated provincial and federal sales tax system was discussed.

We believe that this is a step in the right direction and encourage Ontario to pursue these discussions with the federal authorities, with the objective of bringing in an integrated, single federal and provincial sales tax. We believe that a single sales tax would greatly simplify the impact of the upcoming federal changes as they would apply to the real estate industry.

However, at the same time, we want to ensure that any new sales tax system to be introduced does not increase the overall levy of sales tax on the real estate and construction industries in Ontario. Since October 1, 1984, the rate of federal sales tax on most construction materials has increased from five per cent to eight per cent.

In addition, certain preferences previously available to prefabricated building sections, ready-mix concrete, insulation materials and other items were removed by the May 23, 1985, federal budget. It is clear that as the federal sales tax burden increases, the provincial sales tax revenue also increases because the Ontario tax is levied on the price of the materials of the contractor, including the federal sales tax.

The present federal sales tax rate of eight per cent on most construction materials is four percentage points below the general sales tax rate of 12 per cent. The anticipated reform of the federal sales tax will broaden the tax base to include erection and installation labour. We want to ensure that the provincial and federal discussions on an integrated tax do not result in a loss of the preferential four percentage points presently provided.

It is important to our industry that reform not result in an overall increase in the amount of sales tax burden on real estate and construction activities. The previous increases in the federal sales tax rate from five to eight per cent, and nine to 12 per cent on some construction materials, plus the compounding provincial sales tax burden on those increases, has already aggravated the rising cost of construction.

We recommend that Ontario undertake a detailed study of the impact of sales tax reform on the real estate activities in Ontario to ensure that the resulting sales tax burden under tax reform will be no greater than the combined federal and provincial levies at present. We would be pleased to assist Ontario by undertaking a study for the province to determine the integrated tax burden under tax reform, if you wish.

The institute would also appreciate the opportunity to work with the province in determining the approach and structure for integrated tax on real estate activities under tax reform. We have made similar submissions to the federal government through both the Department of Finance and Canada Mortgage and Housing Corp. It is hoped that they will welcome our industry's participation as a whole to work with them and, likewise, we hope the province will try to work out the proper scenarios for a fair and effective sales tax system as it relates to our industry and other industry groups as well.

The Ontario capital tax contains a number of inequities facing the real estate companies operating in Ontario. To list a few:

1. The turnover period for companies with land and housing inventories is much longer than for manufacturers. Accordingly, capital tax becomes a higher cost per unit sales.

2. The nature of companies which hold revenue-producing property portfolios is one of relatively large balance sheets compared to income statements and of high leverage compared to other firms. A real estate company, therefore, pays more capital tax than a manufacturer with the same income.

3. Ontario-based companies are at a disadvantage in the project development stage compared to out-of-province corporations, due to the tax apportionment formula being passed only on revenue and salaries with no reference to asset location.

We strongly feel that this confiscatory and counterproductive tax should be made equitable among all types of production investment. This could be accomplished by providing to real estate companies a lower capital tax rate and a three-part apportionment formula based on revenue, salaries and net book value of real estate assets.

In regard to major project financing, we believe that an incentive should be considered to assist in the financing of long-term provincial and municipal projects for construction or restoration, e.g., construction of new or improved urban transportation systems and reconstruction of urban sewage schemes.

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Such an incentive program could take the form of an Ontario exemption from income tax on long-term provincial and municipal bonds designated for major capital projects within the province. This means that financing would spread the significant costs of these projects over the long term of benefit to be derived.

In conclusion, while we appreciate that certain of the matters raised in this submission may be beyond this committee's mandate, nevertheless we strongly feel that they should be considered in the interests of this industry and the citizens of Ontario.

We thank you for the opportunity to appear before you and make these submissions. We will be pleased to answer any questions you may have, particularly in the areas of the tax issues that were raised.

Mr. Chairman: We appreciate your submission. It is very thoughtful and very provocative. I have four questioners: Mr. Haggerty, Mr. Foulds, Mr. Taylor and Mr. Ashe.

Mr. Haggerty: I am concerned again, as I was previously, about the different briefs being submitted to the committee. Each one has suggested to the government that it should be reducing its deficit. You suggested that on page 2, where you said, "We strongly urge that the provincial government exercise both financial restraint and better targeting of its spending programs thereby controlling the provincial debt."

Then you discuss "Rapid Growth in Housing Starts." Let us take a look at paragraph (a): "We strongly recommend the province provide assistance to municipalities for major infrastructure works (highways, roads, sewers, schools and related services)." One minute you are telling the government to control its deficit and the next minute you are coming back and telling it to spend more money. Now I guess the question is, can we go both ways on this?

Mr. Greenbaum: If I can lead off on that through you, Mr. Chairman, generally speaking, we feel that the province should control its deficit and should better target the spending programs. We do not feel that the request for greater assistance to municipalities and rapid growth areas is inconsistent with that for the following reason, which I will give you by way of example.

In southern York region just north of Metropolitan Toronto, industrial growth and municipal growth generally are being hampered by the lack of Highway 407 being constructed through York region. There is a tremendous industrial base in that southern York region whose development is being severely impaired and restricted by not having that highway in place. The spinoff effects of having more industry in that area to the province in terms of tax dollars and revenues it will receive will, over a period of time, outweigh and pay back the expenditure being made on that highway.

We are saying that while the province should be encouraged to control its deficit, it should also perhaps better target where it is spending its dollars, where it is going to get a bigger bang for its buck and where the returns are going to be greater to the province and to the municipalities in terms of tax dollars received, employment generated and so on.

Mr. Haggerty: Looking at another area, the Niagara region for example--and my colleague the member for St. Catharines (Mr. Bradley) would probably bear me out on this--the infrastructure is in there now, and we have industry closing its doors and moving on to some other place in Ontario or even going back to the US. The question is, how far can the government go?

All of a sudden you have a boom year and you say you need all the services in here. Then you have industry closing its doors. The infrastructure is in this community, but you want to turn around and develop it somewhere else. Why should everything come to Metropolitan Toronto because it is the larger region? There are other communities out there with infrastructure in place now waiting for industry to locate in that area. I suppose the question is where the development should be pushed.

It is a cost to the municipalities that have already gotten this in there. They have a development officer waiting for it and cannot get any results at all. I suggest to you when you are comparing the two, you are saying, "Hold back, cut back and then spend again," where you have all these services in other communities. I can look to northern Ontario and say: "Let us look to northern Ontario. Why should some of the development not take place in northern Ontario?"

Mr. Greenbaum: We do not take issue with that. If those infrastructure facilities are already in place and it is a matter of the province encouraging by way of some form of incentive to various industries to locate in those areas, that is fine. That is what we would like to see, the province being strong as a whole but, by way of the example of the Highway 407 situation, I am just trying to point out to you that there are areas, I am sure we can all agree, where spending is not as effective and the returns are not as great as everyone hoped they would be.

Mr. Haggerty: Sixty miles is not going to hurt that much either way for industry to locate there. Somebody has to give the directions, and it must come from the developers in the area, instead of looking to one place and saying, "I can put up a home there that is going to cost $150,000." The resources are there, in the sense, to say--

Mr. Greenbaum: On the other hand, it is an old proven adage that you cannot force industry to go where it will not otherwise naturally go. We in the development industry and you as politicians, I think everyone has learned from a number of examples like that over the years. Industry is going to go where the labour pools are, where the freight rates are advantageous, where other charges and costs are relatively--

Mr. Haggerty: Those grants will lead them that way.

Mr. Greenbaum: That is fine, and we are not discouraging that either. I hope the example does illustrate that. Asking the province to direct funds to rapid growth areas is not inconsistent with asking the province to control its deficit and better target its spending, because those two have to go hand in hand.

We do not see it as a one-shot thing, where we are asking for funds to be directed to high growth areas because this year has been a good year or last year has been a good year. There are urban areas across the province where there has been consistent growth over the years. What we are finding now is an exceptional situation, which is basically due to the good economic time the province is enjoying and the supply-and-demand situation in the immediate Metropolitan Toronto area. As a principle, however, I think the submission made does stand on its own merits.

Mr. Foulds: I have a couple of questions of clarification first. On page 3, what are municipal impost charges?

Mr. Greenbaum: Levies.

Mr. Foulds: What do you mean?

Mr. Greenbaum: When a developer develops land, he has to make a payment or contribution to the municipality in the form of a levy, which is to cover the municipality's costs of providing a combination of hard and/or soft services, depending on the situation.

Mr. Foulds: Do you mean he has to put up front a cash payment for the municipality to put in sewers, lighting and that kind of thing?

Mr. Greenbaum: That is correct. Even where a developer in many cases puts in the sewerage systems, there is often a municipal impost charge or levy for operation and maintenance of the sewage treatment plant or major trunks downstream or--

Mr. Foulds: Here you are simply recommending that impost charge be refunded on rental accommodation housing, particularly social housing?

Mr. Greenbaum: Yes.

Mr. Foulds: Can you explain why?

Mr. Greenbaum: As an incentive to produce more social housing.

Mr. Foulds: It is an interesting idea. I have not thought through the implications, but obviously one of the areas where we really do need to develop additional housing is in social housing. There is a crying need for that, and I understand some of the problems that both private and public developers have in terms of supplying it. That is an interesting idea.

Mr. Finch: I think we should mention there that the question of the upfront levy is also a question of the time period from when the levy is paid in cash until the product is completed. As a builder or a developer you could be carrying that for four to five years before you finish it.

Mr. Foulds: Yes.

Mr. Greenbaum: For example, there are municipalities around the immediate Metropolitan Toronto area where levies, both local and regional and/or regional levies combined, vary for an apartment unit. It could be anywhere from several thousand dollars to over $7,000, which, in the overall cost of the development of that unit, could represent a significant amount of money.

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Mr. Foulds: The other question I have for clarification is over on page 5. I think I understand it. You said, "The turnover period for companies with land and housing inventories is much longer than for manufacturers." Do you have any figure on that? Is that because it takes you four or five years to develop a land development and a manufacturer can produce a car in a year or whatever?

Mr. McLean: I think the point is perhaps more in line with looking at and comparing it to a company which is not in the real estate sector, which is distributing goods or manufacturing or is even a service company. Its trade payables are excluded.

Mr. Foulds: Its what?

Mr. McLean: Trade payables. Its accounts payable for materials it resells or any costs it incurs in the process of earning revenue. Those accounts payable are excluded from the capital tax base, whereas in the case of a real estate developer, because of his turnover period and because of the nature of the business, he is placing long-term mortgage financing on his inventory. That is his trade payables, his accounts payable. Those payables are included in the capital tax base.

When you look at the right-hand side of your balance sheet, in the case of a developer, you are picking up everything on that side, whereas in the case of a non-real-estate developer, some other sector, you are looking at only the long-term debt and the shareholders' equity section.

Mr. Foulds: Would that be true of, say, Bell Canada? It strikes me it has a lot of capital investment it has to do.

Mr. McLean: I am not familiar with Bell Canada's financial statements, but I assume it would have both long-term debt and a lot of current payables, so it would probably be better off than the real estate sector.

Mr. Finch: I think the answer in the time framework, though no study has been done, is that you pay tax as a real estate developer from the time you buy the land to the time the product is built, an average, I am sure it is safe to say, of three to five years. In that period, each and every year you pay capital tax, whereas a manufacturer would be looking for a turnover three to four times a year, turning his product. So it is a big multiple.

Mr. Foulds: Do you have a rough figure of the corporate income tax paid by the people in your organization as a sector? Do you have any idea at all of the corporate income tax, as opposed to capital tax, that the provincial Treasury gets from corporate income tax paid by your people in your sector?

Mr. Greenbaum: By our industry? Offhand, I could not tell you.

Mr. Finch: I am not aware of any survey or any research done in that area.

Mr. Taylor: Just to follow up on a couple of points made here, one deals with assistance to municipalities again. Historically, as you know, much of servicing of municipalities was done on a capital project basis by the municipality or on a local improvement basis. I guess it was after the Second World War that we got into subdividing as we know it now and the transfer of financing from the municipal corporation to the developer, the subdivider and the builder. Currently, you have to be a very strong person in a financial sense to be able to engage in the business.

Could you comment on what potential there might be left to explore the time-proved system of utilization of legislation that has been on the books for years in terms of the construction of the services of municipalities, and what would be appropriate for the municipal corporation, either on an area-wide basis or on a street-by-street basis, in terms of specific local improvements. I know there is no one in this room who is more familiar with urban planning and development than Mr. Wronski. I have some appreciation of that and I am sure the talent is here. Could you comment on that?

What concerns me is the ever-escalating price of homes. The demand is there; it is the affordability that is the problem. What has happened, of course, is that what would normally be debentured costs now are factored into the mortgage, so that you have the home owner personally having to carry those costs in the mortgage.

Then you have, at the same time, a skin game that is being played, if I could put it so crudely, in terms of the impost structure. They develop quid pro quo to a sophisticated art, if not a science. If you want something, then of course they say, "What do we get in return?" When all the impost charges are paid, then if there is still something you are requesting of the municipality, you have additional charges that are dreamt up in order to give you permission to get your building permit. In industry, for example, you pay park contributions even for an industrial development. This I do not understand.

Could you comment on some of these things before I start making a speech?

Mr. Chairman: It is too late.

Mr. Foulds: You are on a roll, Jim; go for it.

Mr. Wronski: Mr. Taylor is absolutely right that at about the end of the war, all the development in Ontario, and indeed everywhere else, was financed by the municipality in long-time debentures or through local improvement charges. Since the war, of course, we have have had a tremendous growth of these municipalities and there comes our dilemma and the municipal dilemma.

To keep up with the growth, you have to do things fast. You have to get the developer to do it. Therefore, the whole tradition of doing it slowly, street by street, putting in sidewalks, paving one road after another, does not hold. Second, there is the change of the lifestyle of our people. Nobody will suffer even one year of living without a sodded front yard, with an unpaved driveway or not having a sidewalk in front of his house. These things have to be done even before a person moves in. This is the lifestyle that, fortunately or unfortunately, we are facing.

I would say those are probably the two basic things. There is the time, the speed with which the municipalities and the developers have to accommodate the ever-pressing growth, specifically in centres like Toronto, Ottawa, Hamilton, London and Kitchener. In smaller towns these things do not obtain. They do not charge levies. They build gradually. They have completely different standards of services that people will willingly accept, but in the large urban areas, these things are being accepted as practically a minimum.

Mr. Taylor: I am going to insert my second question at this stage, because in answering my first in more detail you may be touching on the second, which deals with the point you made on page 3 of rationalization of the planning process.

Mr. Wronski has mentioned the element of time. Time is money. It is important to get your product on the market and I sense that the time has expanded. The process has become so complicated and tortuous that a time element is involved, a delay in having something come out the other end. What you are trying to overcome in terms of the time span for debenturing on, for example, a municipal corporate basis and making up for that by doing it now, by having the private sector do it now, has become eradicated because of a complicated planning process that frustrates the purpose. That is my second question, on which maybe you would comment as well.

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Mr. Wronski: I should actually add a third factor that just came to my mind. If we were to debenture everything through a municipality's long-term bonding, that of course would increase taxes tremendously. By having to develop with everything up front and really the new home owner paying for these services, the municipality is free to maintain the tax level at what it thinks is politically acceptable. If you ask any politician, he does not like taxes to go up, and they would have tremendously if it had not been for the lot levies or the front-end balancing by the developers.

Mr. Haggerty: But his taxes are already high, right from the beginning, if you base it on assessment.

Mr. Chairman: Mr. Partington has a quick supplementary. Can you squeeze in front--

Mr. Taylor: Excuse me. Mr. Wronski has not finished.

Mr. Chairman: I am sorry.

Mr. Wronski: I will say very briefly that indeed the process has become extremely complicated. Many other aspects now come to play in approval of creation of planned communities, like the environmental aspects, the question of location of disposal dumps. The standards have increased tremendously and they require very well qualified engineers on both municipal

and development industry levels to cope with it. Indeed, time has stretched fantastically on a subdivision.

Mr. Partington: There seems to be a greying here of areas between direct development costs and impost fees, things like sidewalks, roads, sewers, lights and sodding. My understanding was that this always was related to development costs and was paid for by the developer in the price. Impost fees are more intangible, like fire trucks and things of that nature.

Mr. Wronski: That is very true.

Mr. Partington: Were you suggesting earlier that the impost fees range up to $7,000?

Mr. Greenbaum: Yes.

Mr. Partington: When is that impost fee payable?

Mr. Greenbaum: In most cases, it is either payable in total, or at least secured in total and partially paid, when a development plan is registered.

Mr. Partington: Who pays it, the developer or the home--

Mr. Greenbaum: The developer. It is all incorporated. As Mr. Taylor has indicated, all these costs are all added into it.

Mr. Partington: I am trying to differentiate. I understand that a home owner should pay for the sidewalk, sodding, streets, curbs and sewers. I guess I have always questioned, and continue to question, whether that home owner should be paying upfront on that lot for the cost of acquiring a fire truck or some other service that all the other taxpayers get paid out of the general tax revenues.

Mr. Greenbaum: I am pleased to hear you say that, because as an industry we have historically taken the position that the developer should be reponsible for the hard costs associated with development and not the soft costs. I guess it is fair to say we have been at loggerheads with the Association of Muncipalities of Ontario for a number of years in trying to rationalize a fair and equitable levy policy.

Mr. Partington: I agree with you. I want to ask a couple of more questions related to this. If you take a $7,000 impost fee and pay for it at your stage, what is the final cost to the buyer of the lot as he puts up his house? That $7,000 obviously has carrying charges, probably a markup for you and a markup for the builders for their carrying charges. Is it $20,000, $15,000 or is it still $7,000?

Mr. Greenbaum: We take the development cost and incorporate it into the cost of the lot. When a house is built and offered for sale on the market, it reflects that lot's cost, which incorporates the impost, development cost and the carrying cost associated with it.

Mr. Partington: I would think that a developer who is in the business would know roughly what that figure would be. You are saying you could not guess what--

Mr. Finch: It would vary by area, but in round figures, 10 per cent.

Every month's delay in getting the final product is adding $60 in interest alone, so the lot price, as you say, does go through to the buyer.

Mr. Greenbaum: One other item. I wanted to react to something Mr. Taylor indicated. He is right in what he mentioned was the historical siutation evolving from local improvement to the developer taking responsibility for it. I not only believe there is the element of time involved and the complications involved, as Mr. Wronski has indicated, but I also believe we can do it cheaper than a municipality can do it.

Mr. Taylor: On that, I would like your response in terms of overdesign, gold-plating of services, conditions or specifications that might be imposed upon you because you are paying for it and not the municipal corporation. Do you sense there is some of that?

Mr. Greenbaum: There is not some of that; there is a lot of that. It varies from municipality to municipality and even within areas of a municipality.

Mr. Taylor: When you are talking about costs, I appreciate that the private sector can do it more cheaply, as a rule. What I am saying is that, because the private sector is called upon to do it, the mandate is--

Mr. Greenbaum: We have to do it to municipal standards.

Mr. Taylor: --from the public sector, so your costs may actually exceed what they would be if the municipality had to bankroll it.

Mr. Greenbaum: The provincial government came out in the 1970s--I have forgotten the precise year now--with what we in our industry refer to as the blue book on development standards. It had therein a whole set of criteria and development standards for road construction, servicing, sidewalks, etc. and planning guidelines in certain situations. The province has never really enforced that on municipalities. It has suggested it as a guideline, but many municipalities do not want to recognize the effort by the province. The industry supported that in a very big way and still supports it because there are some areas in the province where municipal engineering and construction standards are far in excess of what they need to be to provide a good living environment.

Mr. Taylor: I gather a lot of studies have been made on impost charges. Do you have something current that indicates the range, for example, on a single-family house? You mentioned apartment buildings.

Mr. Greenbaum: We have access to that information and can make it readily available.

Mr. Taylor: What is that alleged to cover, in terms of soft services, as opposed to what we would normally expect?

Mr. Greenbaum: For your reference, at present, the Ministry of Muncipal Affairs is involved with our industry and the Association of Municipalities of Ontario in an effort to try to rationalize the levy policy and levy program in Ontario. There have been Ontario Municipal Board cases with respect to levies in the last few years, usually siding with the development industry.

The government has contemplated bringing in legislation to deal with

levies. With the assistance of the ministry and in working with AMO, the Association of Municipalities of Ontario, our industry has attempted to try to see where we can find some common ground to come up with and agree on a levy policy.

I think we have made a lot of headway in the last couple of years, and more particularly, in the last six months. At least, we have agreed on the methodology and the formulas to be used in certain areas, but we are still apart on some philosophical issues as to what extent levies should apply to soft services. It is to that end that I think we have gone as far as we can go as an industry in our submissions. We have indicated to the Ministry of Municipal Affairs that it now is up to it to determine where it feels the proper line is to be drawn.

Mr. Chairman: I am going to have to cut this short, Mr. Taylor.

Mr. Taylor: Some years ago, there was the Blue Skies development or something, in which I remember a judge in the Supreme Court referred to this extraction as "Municipal's corporate piracy." I am quoting now. It seems to have become worse instead of better. The question I asked was on the rationalization of the planning process. There was just one paragraph where he had sketched it and I was wondering--

Mr. Chairman: I think we have elicited some interesting information on that. There is no doubt about that, but we are running short of time.

Mr. Partington: I have one last question, if I may, on the impost fees.

Mr. Ashe: I have been on the list right along and your supplementary before took longer than one of the questioners.

Mr. Partington: I do not think so.

Mr. Chairman: You are not going to be allowed to ask your question, Mr. Partington.

Mr. Partington: I waive my question.

Mr. Chairman: Quickly, one last supplementary.

Mr. Partington: How do you rationalize a rebate of impost fees to rental accommodation, bearing in mind that it is private entrepreneurs' own rental accommodation and that, in fact, there would be no rebate to single-family property owners?

Mr. Greenbaum: We made the point but I think emphasized it in reference to social housing, which we do not usually own once it is built.

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Mr. Ashe: I have two points. One is the area Mr. Haggerty got right into, the seeming inconsistency between balancing the budget, which we are hearing about regularly the last number of submissions over the last while, while on the other hand, depending on the group, they always say, "Spend more money in my area.". That is par for the course. I have no problem with that.

I would like Mr. Greenbaum to rationalize how he sees that as a general

plus, keeping in mind we are both aware of a municipality where most of the infrastructure was at least carried--financed in some cases, as you know--with no financing costs for umpteen years. It always bitches about paying it back and is still looking at 10 per cent increases in the tax rate, with huge assessment growth at a time of roughly four to four and a half per cent inflation.

In other words, even when the government financed the infrastructure, it has done nothing for that municipality, and you know the region I am talking about, to sharpen its pencil, if you will. Is it because that is an unusual situation? Do you see something different in other areas?

Mr. Greenbaum: I think the circumstances in that situation were influenced by market factors more than anything else. In fact, in the last year, and what is happening right now in that area, is that there is a lot of growth and a lot of development and a lot of construction that I think will see the initial investment paid back fairly quickly. I know our company and others in the immediate area there have been able to attract a fair amount of industry, especially in this last 12-month period.

It goes back to a point I raised earlier. Unless there are outright grants involved, usually it will be the market forces that will dictate where the growth and especially where industry is going to occur. I think that area we are talking about now, in Durham region, has come into its own and there is very significant growth taking place there.

Mr. Ashe: I can tell you that. That sure is not new this year, though. It has been happening, as you know, for quite a few years. It is on the ground and it is going to continue to happen.

Mr. Greenbaum: It has been accelerated.

Mr. Ashe: My point is that, with the infrastructure already there, at least in the hard-service area, it has not helped. In actual fact, expenditure increases in the coming fiscal year, as I understand it, will be in the 16 to 17 per cent range at a time of four and four and a half inflation. The only reason the tax increase is only 10 per cent is that the other six or seven was replaced by increased assessment.

All I am saying is that I do not think it always works. Sometimes, if you put financial pressures on whatever level of government, and I mean that right across the board, they have to be sharper than when they say, "Oh well, we don't have to worry about that for a long time, so we won't plan accordingly to pay it back."

Mr. Greenbaum: But no two areas are always the same and have the same circumstances and market factors that affect or direct growth in those areas. If you look at the growth in southern York region or Peel region, compared to Durham region, the growth rates are fantastically different. Similarly, areas within those regions--for example, the southern end of York region is different from the northern end of York region in terms of growth. You can see where the dollars are being spent within the various regions. It is the same in Durham. It is the western end of Durham that is quite substantially farther ahead in terms of growth than other parts of the region.

Mr. Ashe: I have one last point. I will not spend any time on it because I aprpeciate we are already behind. It is in the area of the capital tax that, again, Mr. Greenbaum touched upon. There is no doubt that there are

inequities generally within the capital tax principle, if you will, and not only as it relates to the development industry. On the other side of the coin, I will be honest. I would be reluctant to remove anything that further encourages prime owners of developable land to sit on it on the basis that it will never get cheaper. We all know what we are talking about there, too. Anything that cuts down the carrying costs encourages us to go on with the fear, in some cases, literally for ever.

Mr. Greenbaum: The example you are citing is not a fair one, again because, as you know, until the last four or five years the servicing infrastructure in some parts of that area just was not available to bring the lands on stream, even though the lands had been held for a long time. I am talking now about areas within the town of Ajax, specifically, where servicing infrastructure still is not in place to enable some parts of that municipality to grow. With respect to the issue generally that you raised, perhaps either Mr. Finch or Mr. McLean can deal with it.

Mr. Chairman: Thank you very much for your presentation. As I indicated, it was a provocative one. It obviously got a lot of us thinking about these matters. We appreciate the effort you put into it.

We are continuing now in the same vein with the presentation of the Ontario Home Builders' Association. Exhibit 80 is in front of you. The OHBA is being represented by Tom Cochren. Mr. Cochren, welcome to the committee. You have some other people with you. Perhaps you could take a seat in front of the microphones and introduce the other members of the delegation. I understand that in your packet, in exhibit 80, members of the committee will find at the bottom of the right-hand side a statement that Mr. Cochren is going to commence with.

ONTARIO HOME BUILDERS' ASSOCIATION

Mr. Cochren: My name is Tom Cochren. I am a small builder and a renovator from just outside Hamilton. I was elected president of the Ontario Home Builders' Association this year. I am coming down with a slight cold, so I will not be able to speak to you for the full 45 minutes we were allowed. I will present an abridged, abbreviated version and, I hope, encourage some questions and discussion with the members of your committee afterwards. With me we have members of our executive and I would like to introduce them to you. It does not matter which way I look, it is bad news.

Mr. Ashe: Especially on your far right.

Mr. Cochren: Next to me is Alido DiIorio. He is the president of Alterra Developments and a builder in the Hamilton, Burlington and Ancaster area. He is the second vice-president in our association. Next to him is a quiet, reserved fellow. His name is Hugh Heron; he is the president of Heron Homes and the first vice-president of our association. On my left is John Bassel who is president of Arcadia Group Investments Ltd. They were builders of apartments, do property management of apartment buildings and condominium projects, and today build multifamily and single-family homes. Prior to serving on the rental advisory committee, John's hair was quite a big darker than it is today.

Mr. Chairman: I understand we have a biography of each of you in our packets, excellently prepared.

Mr. Cochren: That is the truth, Mr. Chairman. We also have with us our executive director, Janet Findlay, who is sitting behind us.

To begin, the Ontario Home Builders' Association appreciates your invitation to make our views known about the state of our industry and what we believe are Ontario's public policy requirements on the occasion of the forthcoming budget. You are to be congratulated for making the budget process more open and accessible. Morever, we wish to give the government credit for economic and fiscal policies that have contributed to the excellent performance of Ontario's economy.

We are also sympathetic to the difficulty facing you at this moment. You are confronted with a dilemma: Should you cut the deficit that continues to hang over the province? Is it appropriate to increase spending or should there be a change of priorities?

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Our intention in coming before you is straightforward, to help you in your deliberations by presenting the circumstances surrounding our industry and what we believe will make for an environment that will help achieve more affordable housing in this province.

First, a word about us. The Ontario Home Builders' Association is celebrating its 25th anniversary this year. We are a voluntary association of people involved in home building right across the province. We have over 2,500 members through 26 local associations, representing the entire spectrum of disciplines in residential construction. We have builders, renovators, developers, trade contractors such as plumbers and bricklayers, realtors, lenders, manufacturers and suppliers, as well as planners, architects and engineers. Together we produce about 80 per cent of Ontario's new housing and last year over 55,000 units were begun by our members.

Our success and prosperity means success and prosperity for Ontario. We are proud of our role in Ontario's building industry, which is the single largest employer in the province. Nearly 400,000 people are employed in our industry, twice as many in fact as in the auto industry. Last year the value of Ontario residential construction was $10.5 billion, while the total industry contributed about $24 billion to the province's economy.

At the same time, the majority of home builders are small businessmen. In this province, 90 per cent of builders build no more than 10 homes a year. We are small entrepreneurs based in our own communities creating jobs. Each new house, by the way, creates the equivalent of 2.5 full-time jobs spread across a range of industries. As well as jobs, we create places to live for Ontarians.

We are united philosophically in the strong belief in home ownership as a way of life. Buying a home gives Canadians a sense of ownership and a feeling of belonging to a community. It provides the average Canadian an opportunity to develop equity. A home is the place for families and engenders strong ties within our society. When we buy our first home, it instills within us a sense of pride. If we all reflect back, I think we can remember that is when we really began to contribute in a meaningful way to our communities and our societies. In essence, we regard home ownership as an essential part of the Canadian dream and we are doing everything possible to help every Ontarian realize that dream.

While our association is a focal point for our members, serving as a facilitator of an exchange of ideas and information, it also benefits the public. We provide ongoing training and assistance to our members to ensure that Ontario home buyers continue to have the best-built housing in the world.

We enforce professionalism and a code of conduct so that the public will be dealt with fairly and honestly. We also supply information on which members are in good standing. We furnish helpful guidelines on how to buy a home, renovate or hire a tradesman. We do all this because we believe an educated consumer is the best consumer.

Just a word or two about the home-building environment before we address you directly on the budget. It is the nature of the home-building industry that it must cope with uncertainty and insecurity from external forces beyond its control. Interest rates, demographic changes, consumer confidence, changes in legislation or regulations, municipal delays, weather, labour disputes and material shortages all have an impact. In the last two years, we have had unprecedented demand, particularly in the Toronto area, that the industry has worked diligently to cope with.

Examine the record figures for a moment. From 1984 to 1985, for the province as a whole, housing starts increased from 48,000 to 65,000, a 35 per cent increase. From 1985 to 1986 another 81,000 were begun. That is an additional 25 per cent increase. In Toronto alone, we recognize that the increase in the first year from 1984 to 1985 was 42 per cent, while the increase last year from 1985 to 1986 was closer to the provincial average, 23 per cent.

All the while, quality has been improving and the size of units has been increasing because buyers want it that way. Therefore, the amount of labour per house has been increasing. You can understand that meeting this intensified demand has been challenging for us, but our members responded. They carefully planned closing dates and communicated with each customer. As an association we have taken a strong stand on professionalism. There are some in our industry who behaved improperly by failing to communicate appropriately with their new home purchasers. We have discontinued the membership of builders who did not adhere to our code of ethics. We will continue to regulate ourselves by placing a high value on our code of ethics and membership in the Ontario Home Builders' Association.

Our suggestions for your consideration emerge from our view that the role of government is to nurture economic conditions so that the economy can function effectively to meet market demands. Of course, we also believe that governments have a role to play in health and safety and in providing financial assistance to those who, for whatever reason, are unable to support themselves.

We have three recommendations for budgetary action that we believe will contribute to maintaining and increasing the level of competence of the industry in the future of Ontario's economy. First, efforts should be made to continue reducing the province's deficit. Second, regulatory reforms should be pursued in all sectors. Finally, economic disparities in the province should be addressed.

On the deficit, we congratulate the government for its efforts in keeping deficits low so that the province continues to have the lowest per capita deficit of all of Canada's governments. We also recognize the competing demands on government, with some asking for reduced spending and involvement

and others calling for more funding. Our position is to urge the government to make deficit reduction as high a priorty as possible, while it continues to meet legitimate needs. In recognition of your dilemma, the two areas that we address later in our brief that have funding implications are requests for examinations of spending. We would not presume to make such suggestions without a full study of those implications.

On regulatory reform, we look to government to remove unnecessary duplication and to streamline approval processes. In housing, our association looks forward to an increasing dialogue with the buildings branch of the Ministry of Housing on reducing steps in the regulatory process. With regard to the Ministry of Municipal Affairs, we underline the urgency in connection with the rationalization of the land approval process. On another issue, we have been working at the same time together with the Urban Development Institute of Ontario and the Association of Municipalities of Ontario in meeting with the ministry, and we look forward to accelerating these activities.

Economic disparities: We note that the present boom is not province-wide and that there are significant regional differences in economic strength and housing market activity. Government planning efforts are required to minimize these disparities and we urge the government to continue its activity in this respect.

In order to achieve these objectives we have a series of proposals to make that we feel will also help our industry secure its future and provide affordable housing for Ontarians. First, we have some suggestions regarding housing affordability. For housing to be affordable, housing costs must be kept to a minimum. Here are some ways of achieving that.

The approval process must be streamlined to reduce unnecessary and very costly duplication. We therefore urge the government to make regulatory reform a top priority. We are opposed to changes to the Ontario Building Code which add to the cost of construction, but which do not affect the health and safety of occupants. We urge the government's earliest attention to the imposition of often substantial and arbitrary lot levies by Ontario municipalities. They raise costs and often represent unjustifiable charges. The disposition of government land banks is another method of increasing availability of land and reducing its cost. We welcome any efforts by the government to dispose of its land banks, preferably by sale to large and small builders alike.

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Then there is the issue of capital tax changes. At present, home builders must pay capital tax on their debt obligations which, typically, are considerably larger than other businesses of similar size. The effect of an apparently low rate of 0.3 per cent, when it is applied to what is known as "taxable capital," often equates from nine per cent to 11 per cent of income. This is double the tax payable by a comparable small business in Ontario. We therefore recommend that the Ontario Corporations Tax Act be amended to permit companies in levered situations to be treated in the same manner as banks and trust companies that are taxed only on the basis of equity. We feel so strongly about this issue that we have appended a full position paper to our written submission to you.

Targeting housing assistance is yet another way to cut costs. The government's assured housing program commits the province to targeting assistance more effectively and to encouraging private construction of rental

housing. To achieve this, a long-term rental housing strategy is needed. Governments should seriously examine a targeted program of direct assistance to tenants with a proved need so that they might obtain shelter at a price they can afford. We support the government's role in subsidizing social housing for the truly needy, but we cannot support subsidy programs that provide assistance to those who are in a financial position to meet their own housing needs in the marketplace.

An essential part of a policy of targeted assistance is for the provincial government to adopt a commitment to decontrol rents. A decade of rent control has engendered distrust in the government by our industry and the investment community, and a significant reduction in the value of both existing and new housing stock.

We believe the new rent review legislation is a step in the right direction and we ask for a gradual phasing out of rent controls, along with the elimination of subsidies for the production of rental units.

We also urge you to repeal the Rental Housing Protection Act as planned in July of next year. That act was initially designed to protect the low supply of rental units in some areas of the province, a shortage, of course, generated by rent control legislation. We strongly believe that restrictions on conversions compounds the problems and represents an effort to fix one mistake with another.

A new supply of units is likely to be coming within the foreseeable future in any case. If the Rental Housing Protection Act is allowed to stand, it will continue to deny home ownership to people who want to own. It now is denying potential purchasers the opportunity to create equity for their old age. It stands in the way of improved maintenance, general retrofitting of older housing and other opportunities to improve the present housing stock. It is not sound policy.

Finally, we believe incentives should be examined to spur skilled trades to move to southern Ontario from other less prosperous areas of the country. Jobs in the industry are going begging at $16 and $18 per hour, and higher in Toronto, while skilled tradesmen and craftsmen in Calgary cannot find work at $6 per hour. This package of recommendations, we believe, would be of considerable help in achieving our goal of housing that is affordable for the largest number of people in this province.

We wish to conclude our presentation with our thanks to the committee for providing us, and through us our membership, the opportunity to participate in these consultations. This is a welcome change from the past and we congratulate you for opening up the process.

Mr. Chairman: Thank you. That was such a smooth presentation that I thought we were not going to have any questions, but we now have a fair number. We have Mr. Poirier, Mr. McFadden and Mr. Laughren.

Mr. Poirier: I am looking at page 9 of your presentation. Up to that point I was very impressed with your desire for quality of work, for the principle of home ownership and the whole thing. The second point on that page is, "We are opposed to changes to the Ontario Building Code which add to the cost of construction, but which do not affect the health and safety of occupants."

Obviously, as parliamentary assistant to the Minister of Energy (Mr.

Kerrio), knowing that the energy cost to Ontario in one year is over $13 billion, and having built my own home at 6,000 square feet where my out-of-pocket heating costs last winter were $35--

Mr. Chairman: Did you say $35?

Mr. Poirier: That is right, $35. How do you feel about, for example, the added costs of insulation for new homes? I just presented awards to students in design for the R-2000 home two days ago. Could you elaborate on that? I find those opposing statements.

Mr. Cochren: Certainly, and I do not want to try to tie in the $13 billion with a 6,000-square-foot home and affordable housing. I have a lot of expertise with me here today and I do not want to run a one-man show. It would be an injustice to you for me not to allow other speakers. I will ask Mr. DiIorio--and Mr. Heron might want to add something; he was at the conference--to speak to the question of increased insulation. I think that is what we were talking about.

Mr. DiIorio: Let us touch on two particular topics. One is increased insulation, the other is the R-2000 program.

The R-2000 program is one that is being delivered in Ontario through our association, along with the Department of Energy, Mines and Resources, so there is a commitment by our association to the success and the monitoring of this program.

We are also of the position, and it has been public, that we are not confident the technology behind the R-2000 program has yet been perfected to the point where it can go into mass production. Serious problems have developed during the monitoring process. Continued monitoring and evaluation of the program must be carried out before any of the recommendations or proposals or components of the R-2000 will be introduced into the Ontario Building Code.

There is also a personal position of many builders in Ontario and many customers living in Ontario, with its wide range of temperatures. We all recognize that heating is a real cost. The energy consumption in the home must be minimized, but there are some costs associated with the quality of life. There is a growing number of purchasers out there who consider the health aspects of living in conventionally built homes, consider the outlay, the financial benefits of living in an R-2000 home, with all the restrictions on lifestyle that would be imposed in that type of home.

These things have to be addressed; they have to be examined. To rush into implementing many of these requirements in the building code could lead to very serious repercussions down the road.

Mr. Poirier: If I may say, it is hard to understand what you are saying about rushing when you consider it has been 14 years since we had our first energy crisis. If we had run into our first energy crisis last year, I could understand the rushing part, but 14 years later--

Mr. DiIorio: Homes are designed and built to last much longer than 14 years.

Mr. Poirier: That is right. I should hope so.

Mr. DiIorio: There are problems associated with the R-2000 program. You can recognize by the watchdog of our industry, the new home warranty program, requesting and demanding additional securities from people building these higher-energy-efficient homes. The market has not accepted the concept of the R-2000 program to the extent people have been led to believe.

In Ontario, there were 81,000 housing starts last year, of which fewer than 700 were R-2000, so the marketplace has not signalled to our industry that there is a strong demand for this type of product. The added cost of an R-2000 home, depending on the size and the style of the home, can be anywhere from $6,000 to $9,000. The affordability question comes into play again.

If you were to do a cost benefit analysis of the existing programs developed by Energy, Mines and Resources and the R-2000 program, you would find that, right now, many of the components in the R-2000 package have no payback. Within a reasonable period of time, the individual, the initial owner, would own that home.

Mr. Poirier: The R-2000 or equivalent. Not necessarily specifically the R-2000, but something equivalent so that you maximize insulation to minimize your energy costs and maximize your comfort on top of that.

Mr. Heron: Mr. Poirier, you yourself have demonstrated that the options are out there to build a 6,000-square-foot home and have a heating cost of $35. The industry is reacting to that. A number of builders, myself included, will offer packages of upgraded insulation, pulse furnaces and so forth. What the industry is asking at the moment is, why do we have to legislate that? If we are going to put energy conservation into legislation, then we have to be aware that we are increasing the basic cost to the basic Ontarian.

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A further concern that Mr. DiIorio is suggesting to you is that the technology may or may not be there. If one says it has been 14 years since we had the energy crunch, there were some people out there who, 14 years ago, would have had every house in Ontario have solar energy. There has been some litigation going on, and there have been some other situations with urea formaldehyde foam insulation, because, with a lot of cases, we rush into things.

The industry is saying we should be looking at anything that does not affect health and safety, but at the same time, as an industry, we are offering the resources to the consumer, if the consumer wants them. If the consumer wants to build 6,000 square feet and have a $35 heating bill, we have demonstrated, as you suggested, that we can do that. We are there to meet that demand.

I suggest that possibly what should happen is that the marketplace should drive energy conservation. You cannot legislate awareness. Governments have shown, with Participaction, that it works. We are almost as fit as a 71-year-old Swede now. Maybe most of you guys are, but not me.

Mr. Ashe: Do not bet on that one.

Mr. Heron: Yes. One of the good things is we are all feeling great anyway.

If we could get a marketing concept where the market was knocking on the builder's door, saying, "We want R-2000 and we want pulse furnaces," then we would also have a secondary situtation whereby we could create a marketplace for the people who have research and development into this business. We may well, if we jump too quickly, be putting some obsolescence into the system. As I said earlier, we have demonstrated that with UFFI and so forth.

Mr. Poirier: I agree, but then you do not have to have a 6,000-square-foot house to have a $35 heating cost anyway. It works wonderfully for 1,000, 1,500 or 2,000 square feet also.

Mr. Heron: But again, I repeat, the technology is there, the industry is there. You are demonstrating that. We will react to the marketplace. If the marketplace suggests a 1,000-square-foot house for the same incremental, $5 to heat it--if he wants that and wants to pay for that, then we will do it for him, but we really should think seriously before we put it into legislation.

Mr. Taylor: How deep underground did they build to get that?

Mr. Heron: I was not the architect or the builder.

Mr. Poirier: It is all above ground.

Mr. Cochren: With the increased insulation standards, people tend to revert and talk about the R-2000 program. I would like to point out that it is a test program, a pilot project being run and very carefully monitored. If the R-2000 homes represent not only increased insulation but also, we believe, increased quality of construction and air quality inside the homes, we are quite satisfied that we are still developing the technology. Let us see the results and then let us decide whether there is a cost benefit there. Let us weigh the paybacks versus the costs of any kind of increased standards to our home beyond health and safety.

Mr. McFadden: By the way, what Mr. Poirier did not tell you is this 6,000-square-foot house with the $35 heating bill he built was in Venezuela.

Mr. Poirier: You are all invited.

Mr. Ashe: Right on the equator.

Mr. Poirier: I did not know that myself.

Mr. McFadden: You need a compass.

I have two or three areas I want to review with you. I find your submission interesting. You raise points that could keep us here all day, but we have a limited amount of time, so I will just deal with two or three matters.

One is in relation to the focus of the organization. Figures I have seen indicate that over the next 20 years the amount of construction activity and renovation retrofit will rise as a percentage of total construction activity. Does your organization take in people in the renovation and retrofit area as well as the new home builders?

Mr. Cochren: Yes, we do. We have a lot of members who are involved in that. As everybody does, we recognize that demographics are not going to

change, and we anticipate a gradual decline in new housing starts from now until the end of the century. But that is one of the great things about our industry: we are resilient, we bounce back, we look for other opportunities and we like challenges. That is something we are going to face and accept.

We have renovation councils across the province. We participate nationally. We are looking to increase the professionalism and the training of the people in that business. Certainly that is going to provide a lot of work for the people who are now perhaps mostly dedicated to new housing.

Mr. McFadden: I gather that in renovation work you need more manpower than you actually need in a new home. Is that not right?

Mr. Heron: That is correct. We are talking about 2.5 jobs being created on a new home. It is far more labour-intensified when you get into renovations.

To follow up on what Mr. Cochren was saying, our company builds new homes. We did our first renovation this year in Toronto, so we are looking at the field as well. There are great opportunities there. That is one of the things we are talking about to the youth of this province, the opportunities now in our construction business. We are saying they are not limited to new homes. There is a great opportunity there for renovation, and it is going to be there. When we look at all the demographics--people suggest that there are going to be no Ontarians here in the year 2020--we are all going to be around here and we are going to be doing retrofit on new housing or whatever the marketplace demands of us.

Mr. McFadden: Interesting. So you build the houses and then you go back in 20 or 30 years and rebuild them.

Mr. Heron: Yes. It is like the Forth Road Bridge in Britain. We keep painting it all the time.

Mr. Bassel: I have a couple of points on the renovation business. First, most important, Ontario home builders think enough of the renovation business that our president is basically a renovator, so the impact and the importance of the renovation industry has been seen.

Mr. Taylor: They do not last long these days.

Mr. Bassel: The second thing I want to deal with is my particular area of expertise, and that is in the apartment field. There is a need for renovation and upgrading of the buildings. I guess most of you have seen some of the publicity lately and some of the submissions that were made during the rent review process on the serious condition of some of the older buildings.

We like to blame rent controls for this and I think we are right, but there are going to be billions of dollars that will have to be spent if we are to preserve that stock. We recognize that and we recognize that what we have done with low rents in the last 12 years is to borrow from the future. We have just allowed the stock to get used up.

It is like a car, where you decide not to change the oil, and eventually you are going to have to pay for it with large capital expenditures. Maybe that is not a good example, but what I am saying is that the renovation industry is not going to be limited to the low-rise housing stock. We have to find ways to pay for it as well.

Mr. McFadden: Just following up on that, one of the recommendations that I found very attractive in your package is regulatory reform. That is an area that government could carry out. Effectively, it does not cost the taxpayer any money but it could save you probably millions of dollars, and ultimately that will save the taxpayer money in terms of potential housing costs down the line.

Several years ago, I did a lengthy study of all the provincial legislation relating to buildings. There were more than 300 pieces of legislation that impinge on building in one way or the other. One of the conclusions I reached--and I am curious to ask you what your view is; you did not take it quite this far--was that we should take all the legislation and regulations relating to buildings, whatever they happen to be, including the fire code, put them under one code and simplify that code. It struck me that a lot of people who were in the business, particularly small builders, can hardly understand the building code, let alone get into all these other codes and everything else they have to worry about. I am just curious how far you would take this.

It does strike me that one of the ways to deal tangibly with this is to simplify the numbers of pieces of legislation and possibly to bring them under one code for every purpose, and then get that code into a situation, obviously, where it is easily understood, but where it eliminates needless regulation and red tape. I am just curious to see what your feeling is about that.

Mr. Cochren: Right now, the building industry strategy board has four missions. One of them is to look at exactly what you are speaking about. There is money already allocated to that. We see that as very important and the top priority. We want that to be encouraged. I think the buildings branch has deadlines and is reviewing all the 285 regulations and 400 laws and whatever it is. They are all being examined to try to avoid the cost of duplication and repetition that goes on there.

This review goes beyond that. It applies to land approval. It goes beyond codes. It applies to the land approval process. It applies to some awful things that are taking place in different municipalities across the province which have their own colloquial interpretation of the Planning Act, for example. We have to take a look at that. It is not right that it takes just as long to get a building permit as it does to build the house. Something has to be done.

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Mr. Ashe: That fast?

Mr. Cochren: That fast in some areas. The problem is that everybody has this tremendous regulatory power to impose upon this industry, but no one is responsible for all the regulations, for improving the process or for a rationalization of all the regulations. If one little fellow in one little area has a problem, he institutes a new regulation and 10 new forms have to be filled out in triplicate and it only takes another week. Is it right that a builder in Oakville has to go to six different buildings to get one building permit for one house? Something is wrong. Somebody has to take charge and be responsible for the entire process, not just codes.

Mr. Chairman: The consumer pays in the end.

Mr. McFadden: The consumer p]ays ultimately, or the company if it loses money. But ultimately it is the consumer.

Mr. DiIorio: The consumer pays in a lot more ways than just in actual dollars. Take what has happened in the last couple of years when some (inaudible) number starts. Municipalities are being taxed to the hilt in even processing these applications, which results in delays. It takes 12 to 16 weeks to get a building permit in the city of Burlington. After that they have another regulation where you have to go to them and submit a more or less prepared survey of the property showing elevation, the exact layout of the house. That takes another couple of weeks. Meanwhile, that foundation is sitting and you cannot proceed.

This winter we went through an exercise where our framers could not work because we could not get the secondary permits to them. It involved delaying closings and so forth, and that costs. What is the actual cost to that consumer when he and his family cannot move into his home for two or three months because he anticipated permits in six weeks, then it was 14 weeks, then another two, then another three?

There is a human element cost that does not show up in any budget and does not show up in any fiscal figures for any municipality. It is a real toll. You can see the hardships. The people who were affected are just the top of the iceberg. There is a lot of the silent majority who just took it in stride, saying "That is the way the system works and there is nothing we can do about it." I think that issue should be addressed.

Mr. Taylor: Is there a public awareness program for that kind of thing? With the frustration, you must need a psychiatrist on staff.

Mr. DiIorio: There is your answer. All last year, the Toronto Home Builders' Association, one of our locals, took out full-page ads in the Toronto Star and the Toronto Sun explaining these problems. Now we are asked if there was an awareness program. There was.

Mr. Taylor: It is not very effective then.

Mr. Chairman: The Toronto Star is taking notes right now. That is part of our process.

Mr. DiIorio: It is just like Mr. Heron said. You cannot legislate awareness, but I think, as people charged with the responsibility of the public domain, it is our responsibility to ensure that the silent majority is protected, not through legislation, but by streamlining the whole process of all regulations, not only the ones affecting our industry.

Mr. Taylor: We have to remember that the problem does not begin and end with the Toronto Star. You want to come to my part of Ontario where we probably do not read much of it.

Mr. DiIorio: You do not have the problems of getting a building permit in 14 weeks. It takes us two days to get a building permit in Ancaster.

Mr. Taylor: We do not, but I am amazed that anything ever comes out the other end. How do you cope with all this?

Mr. DiIorio: You become hard; you accept it. That is part of doing business and you live with it. You cannot rock the boat. There is the old

saying, "You can't fight city hall." How do you tell your staff to push when, if you push, you go to the bottom of the pile?

Mr. Cochren: This is what I was alluding to. There is no one in the whole process responsible for this increase. Empty lots do not vote. A lot of the people who institute these regulations have a very bad attitude. They suggest to the builders: "What do you care? You just pass it on to the home buyer anyway." We are here to tell you we do care, and it is fundamental to the cost of housing. As Mr. McFadden pointed out, this is one thing that does not cost the taxpayers, but it can make for more affordable housing in the province.

Mr. Heron: When we talk about the problem in Ontario, and there has been a problem in Toronto with late closings and so forth, our local association, of which I am a past president, has been taking out full pages in the Toronto Star and in the Toronto Sun, advising the consumer of what is happening re late closings. Recently, in the last two weeks, we took out another full-page ad and told them about the problems we have in follow up.

Because of the contraints in our industry to meet closing dates, the workmanship may not be exactly the way it should be and there may be some outstanding service work. We have taken a full-page ad to tell the consumer that we are not running away. There is a problem we have to deal with and we are dealing with it. This is something the local association does in Ontario. We like to stand up and be counted. It is a tough business to make the consumer aware. We respect it; we accept the responsibility for it and will continue to do that for the consumer.

Mr. McFadden: I have a final question, not related to that. At the bottom of page 12 you make an interesting proposal, that the question of "incentives should be examined to spur skilled trades to move to southern Ontario from other less prosperous areas of the country." A lot of the concerns made by members of this committee have been to encourage jobs to go to the people and to try to develop incentive programs for people to be able to stay in slow-growth areas and make their living there.

You are suggesting that potentially what we should do is make it easier and more open for people to come from slow-growth areas to southern Ontario to find work. In the past, that has been the traditional thing that has tended to happen. Right through history, people have tended to go to areas where the jobs are. In this century, Canada has evolved a system of regional development where we are trying to get jobs to where the people are and where people are employed.

I am curious whether you can tell us what you are looking for and what you see us doing in terms of incentives to get people from other parts of Canada to southern Ontario. Federal tax incentives? Grants? What are you talking about that would do that? What do you see that would be feasible?

Mr. Cochren: Without getting into the specific recommendations, and without question it is tied into the Unemployment Insurance Act, we start with the fundamental belief that people want to work. They do not want to sit home and collect unemployment insurance. What are the choices in the slower areas of the province and of the country? In the long term, if these jobs are not going to be available and the bricklayer still wants to lay bricks, we have to encourage him to be a little more mobile if we can provide more jobs as

bricklayers. The alternative is to look at training and education and to steer him into other areas of opportunity within his community.

You did a lot of work speaking to this issue of labour, but it is fundamental to recognize what the long-term needs are right here in southern Ontario. We would be blind if we did not say that, certainly for the next 20 years, we are going to enjoy some tremendous growth and prosperity here when 100,000 people a year want to move into the cleanest, safest, richest city in North America. Let us accept that as a fact and realize that we have to attract people to come here because we are going to have a real need for skilled trade, certainly in our industry.

Do you want to add some comments about how we encourage people to consider moving here?

Mr. Heron: One of the things is that nothing is simple. Since we have come into the 1980s, life has become very difficult. In fact, I am sure that historians will say the 1980s was a period of "vujà dé." "Déjà vu" is a feeling that you have been there before, but "vujà dé" is a feeling you have never been there before. We have an unprecedented situation whereby we have a demand in the city and we cannot get people to fill the jobs that are going begging. The unions are working with us. We are not up against the unions. We have a situation whereby people will not, for whatever reason, come to where the work is at the moment.

You cannot put legislation in that says you have to move to Toronto, but we have to create an environment. Possibly what happened in the past was people went to where the work was. I did not see anything wrong with it. I am a Canadian by choice. I came here from Scotland to get to where there was work for me. I did not see anything wrong with leaving Scotland, nor do I see anything wrong at the moment with leaving Winnipeg or the west to come to Toronto and make some money. But again, things have changed and people ask, "Why should I leave my wife and family out west and come to Toronto and try to keep two houses going?"

Maybe there is some way of looking at the unemployment insurance. I know there is a suggestion by the unions that we help them to get here, to look after both situations. Surely we should be doing something in recognizing the problem that we have with labour in the Toronto market. The Toronto Home Builders' Association has gone to Ottawa and asked them to bring people in from foreign countries on a work permit basis. That was turned down because of the number of Canadians who are unemployed at the moment. I think it was quite rightly turned down, but that is not the end of it. Somehow or other, we have to get those Canadians to where the jobs are.

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It is unfair to taxpayers that we should have people sitting at home and not give them the opportunity to work. As Tom quite rightly said, all Canadians want to work. It is a fallacy for people to suggest that the down-and-outs are sitting there waiting for handouts. I have worked with them. They would love to work. Anybody would love to work.

We are enjoying being here today, but something has to be done. The problem is in Metropolitan Toronto just now. Something may happen in other areas of this province where we have to put the labour there, or it may even happen in another province. We have to get Canadians moving across provinces

to where the work is and we have to stop being parochial. We have to help get people working.

Mr. Taylor: We have the problem in the agricultural area. We have to bring in offshore labour to pick our apples.

Mr. Heron: That is correct.

Mr. Chairman: We should move on to the next question.

Mr. Laughren: I think the federal government cancelled its relocation grants from the unemployment insurance program. I could be wrong about that but I think that has been cancelled. We have had some trouble with it in the Sudbury area, which I represent.

Mr. Heron: I think you are correct that it is not there. The unions have suggested to me, and we are working with them, that the program is not there for them to move people around the country.

Mr. Laughren: I wanted to ask you about rent controls. Am I right that the organization is primarily concerned with single-dwelling homes? Are you much into high-rises?

Mr. Cochren: We represent the entire spectrum of residential construction.

Mr. Laughren: Okay. Therefore, the rent control question surely ranks very high among your concerns. If we are going to resolve the low vacancy rate in places like Toronto, on a scale of one to 10, how high is rent control? Is that a fair question?

Mr. Cochren: In terms of priorities for our association?

Mr. Laughren: In terms of resolving the problem; not in terms of your priorities but in terms of resolving the problem of the low vacancy rate, where would you rank rent controls on a scale of one to 10?

Mr. Cochren: Number one. You spoke about learning to live with frustration; that is something we have had to live with for 11 years now. It was one of a number of restrictions we agreed to put into place to control inflation along with wage and price controls, etc. Because of political expediency, if we can be honest, this is the only one that was never repealed. It has come full circle. It has backfired and caused a very serious situation.

Mr. Laughren: So it is very high on a scale of one to 10.

Mr. Ashe: He said number one.

Mr. Laughren: I did not hear you say that; sorry.

Mr. Cochren: Which do you like? Do you like 10?

Mr. Laughren: No, it is okay. That must be as frustrating as trying to get a building permit, because the last time I checked all three political parties in the province were in favor of maintaining rent controls indefinitely.

Mr. Taylor: Not all members of those parties.

Mr. Laughren: I just wanted to tell you I can understand why you are frustrated, although I support rent controls. I am not trying to play some kind of head game with you. I support the continuation of rent controls, but I can imagine that in an industry that puts it as the number one concern and feels it is number one in terms of causing the low vacancy rate, knowing it is probably going to continue must be a frustrating fact of life.

Mr. Chairman: I have a sense that Mr. Laughren is trying to lead you somewhere down the path.

Mr. Laughren: No, I am serious.

Mr. Cochren: I am going to ask John to speak to it, but we have to recognize that we are builders. We are the facilitators of housing in this province. A lot of people think we are the ones who own the rental units, but we do not. We are the people who build them. Traditionally, the bodies who own these units are pension plans, different labour unions, life insurance companies or other lending institutions, which used to look to rental housing as a secure place to invest their dollars. There was low payback at the beginning but long-term appreciation in value. They take a look at it and see the problems. They are not interested in investing the money.

As you said, we are market-driven. We respond to demands from our marketplace. They would come to us and say: "Give us a plan. Tell us how much it is going to cost. Show us something we can rent out that is attractive to people. By the way, how much will it cost, and how much return on investment can we provide for our pension fund, our life-insured people, etc.?" They do not see any return there and that is what rent controls have done.

It is not our not having the ability to go ahead and build the units. There is no market for people who want to own those units, not only because of the financial restrictions but also because the rent review policies of this government tell you how many units you can build, who you can rent them to and how you have to maintain them. When you get somebody telling you everything to do about your business, the investment community, not us, tells this province it is not interested in putting money in rental accommodation because it does not like the rules.

That is my personal view, but perhaps John, who sat on the Rent Review Advisory Committee and came up with Bill 51, can add something.

Mr. Bassel: When Tom introduced me, he said I used to be an apartment builder, and that is not a joke. I am competing with these fellows in the house-building industry now after having been purely an apartment builder for about 20 years. We are still managing apartments. We have not built any apartments for several years. We would like to build apartments because that is where our major expertise is, but I found myself becoming a builder of hotels and industrial properties, diverting people who had been loyal to me for years and years in building apartment buildings to other areas.

Rent controls are like defying the laws of gravity, in more ways than one. I can get pretty emotional about this issue and I do not think I should. It is just that I get very frustrated when I hear that three political parties in Toronto are dedicated to continuing rent controls for ever. I do not think

this government or any other government that has been in power for the last few years has ever looked at a long-term strategy on the subject.

We have put the Rental Housing Protection Act, Bill 11, into force. I do not want to get into a long discussion on that right now, but there are a lot of people who thought they were going to be able to buy units a year and a half ago. Those are people who would have been home owners and would have had a nest egg when they became 65 years old. Instead, they are going to be some of the people the budget committee is going to have to deal with. The budget committee that is going to be in existence 25 years from now is going to have to give social assistance to a lot of these people because they do not have equity and they have not kept up.

Mr. Laughren: Seriously, this was not intended as a mischievous question.

Mr. Bassel: I am not taking it as that.

Mr. Laughren: I have heard it expressed that rent controls were obviously a very serious irritant to apartment builders, but the subsidized rents or at least the controlled rents allowed renting families to accumulate the necessary nest egg to get into the residential market.

Mr. Bassel: People being what they are--

Mr. Laughren: They spend it anyway.

Mr. Bassel: --some people do that and some people will spend it on trips and Maseratis instead.

Mr. Chairman: Some people do that.

Mr. Bassel: Some do, yes.

Mr. Partington: I want to get back to the shortage of skilled labour. I suspect that, in part, it is due to the cyclical nature of the building industry. Where we have skills-training programs through government, they do not reach down to the areas they should. I think most home building, apart from the very small ones, is done through subtrades. If I am in a busy subtrade and business is not that great, I am going to be a little reluctant to hire two or three people who are going to be skilled tradesmen a year from now. When the demand goes down, they may get into the business and may put me out of business. How are you dealing with that? How is the government dealing with it and how should it deal with it? Obviously, that has to be an area that we can improve upon.

Mr. Cochren: I am glad you brought it up. I want to tie it back into Mr. McFadden's point about the need for increased labour because of the future of our business. Certainly, in the past the cyclical nature of it, spurred on by a number of incentive programs, with builders and everybody alike going to the public trough for more money, was robbing from the future to build homes today. We were hurting ourselves.

First, we hope that because of our responsible approach today to government assistance in our industry, we can eliminate that cyclical nature. Second, we know we are going to have, for a long time to come, a tremendous need for skilled people in our industry.

I am going to come right back to it, but I want to talk about renovation for a second. In the United States in 1985 the value of--they call it remodelling but we call it renovation--for the first time surpassed the dollars spent in new housing, and it will never take a back seat again to new housing. It has continued to surpass the dollars spent.

In this province, we understand it is about 45 per cent to 47 per cent of the total dollars spent in new housing. Each dollar spent in renovation equates to--if I can use round numbers, about 60 per cent of that is labour versus 30 per cent in new housing. As renovation takes over in terms of the percentage of residential construction in this province, you can see that there is going to be a tremendous need for people in our industry. That starts with us. We have to attract people into our business. We have to change the impression of a construction worker from a guy who gets run over a concrete truck backing up, or buried in a pit or has bricks fall on his head because that is not what it is like. This is a tremendous business. It is a tremendous life. We have to change the attitude of youth and tell them that being in construction is great. You do not have to be a doctor, lawyer or whatever to be deemed to be a success in this--

Mr. Taylor: A lot of them are plumbers and electricians.

Mr. Heron: That is right.

Mr. Cochren: They certainly are. That is where we want to start. We recognize the need. We are telling government that for the long term there will be tremendous jobs there. Hopefully, we will get through that cyclical nature. If the youth of today is encouraged to take up jobs in construction, they are going to tell that subtrade, "He had better hire me because somebody will because there is work out there." As the trades of today learn. "Maybe it is not going to be so cyclical and maybe I can take on an apprentice and he can help me meet the demands of the marketplace" then there are going to be jobs for people, but it has to start. We have to want to change attitudes. We have to encourage them and we have to show them there are opportunities for training and education. That is another qualm of the building industry strategy board. They are looking at. We have a lot of people looking at training and education.

Mr. Chairman: We appreciate your presentation. It is obvious that we are going to be considering it very carefully when we start writing, which will be Monday.

Members of the committee, I apologize in essence, I suppose, for keeping you this late. Each presentation this morning has been very valuable and I let each of them go over by a few minutes.

This afternoon, I will not be with you. Mr. Haggerty will be chairing. There is one brief matter I would like to have you deliberate on now. Next week, we have set aside exactly a day and a half to write the report to the Treasurer (Mr. Nixon). That may be a little optimistic, but I am hoping we can do it. In the thought that we would avoid any posturing, I ask the committee whether you would consider going in camera and not having Hansard available Monday afternoon.

Mr. Haggerty: Agreed.

Mr. Chairman: Any problems with that?

<u>Mr. Laughren</u>: If I was going to be here, I would support that.

<u>Mr. Chairman</u>: All right. Thank you very much. The meeting is adjourned. We will be back at two o'clock.

The committee recessed at 12:43 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

THURSDAY, MARCH 26, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
Partington, P. (Brock PC) for Miss Stephenson
Poirier, J. (Prescott-Russell L) for Mr. Epp
South, L. (Frontenac-Addington L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Wine Council of Ontario:
Westcott, J., Executive Director
Corbett, J., Vice-President and General Manager, St. Catharines Division, T. G. Bright and Co. Ltd.
Lister, E., Chairman; Vice-President and General Manager, Andrés Wines Ltd.

From the Ontario Federation of Labour:
O'Flynn, S., Secretary-Treasurer
Surich, J., Research Director
Eleen, J., Former Research Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, March 26, 1987

The committee resumed at 2:10 p.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

The Acting Chairman (Mr. Haggerty): I see a quorum. We have the Ontario wine industry in this afternoon. We have Jan Westcott, Jack Corbett and Ted Lister. Mr. Westcott will lead off.

Mr. South: Did you bring any samples?

Mr. Lister: We were not allowed to.

Mr. Laughren: This is a special occasion.

The Acting Chairman: Do you have a slide presentation too?

Mr. Westcott: Yes, we have some slides.

WINE COUNCIL OF ONTARIO

Mr. Westcott: My name is Jan Westcott. I am the executive director of the Wine Council of Ontario. It is a trade association that represents all 18 licensed wineries that operate in this province. My job is to allow the industry to speak with one voice and to represent their interests to a variety of concerns, including the government of Ontario.

Joining me this afternoon on my immediate left is Ted Lister, who is the vice-president and general manager of Andrés Wines Ltd. for Ontario. Ted is also the chairman of the board of directors of the wine council. On my extreme left is Jack Corbett, who is the vice-president and general manager of the St. Catharines division of T. G. Bright and Co. Ltd. Bright and Andrés are prominent national companies in the wine industry in Canada.

We appreciate the opportunity to meet with your committee this afternoon. I have a presentation of 10 or 12 slides which I would like to run through with you.

Before I get into that, by way of introduction, the wine industry has always been, and certainly is in recent memory, an industry that has a deep involvement with the government both through being highly regulated and being rather heavily taxed, as well as the fact that all our products are distributed and merchandised through a government crown corporation, the Liquor Control Board of Ontario. Consequently we have a great number of dealings with the government, and what the government decides to do on a wide variety of issues affects us very materially.

About two or three years ago, the government of Ontario chose to kick off a study that would look at the future of the industry as it operates in Ontario, to try to identify some options and the directions in which the industry should be going. That study was chaired by a fellow from the

University of Guelph, Dr. Jack Tanner, and his report was tabled with the government last year. The wine industry had very serious concerns about some of the things contained in that report, not so much in content as in terms of approach.

As a result, we chose to develop a comprehensive study looking at the industry today and the problems and opportunities that are before us, to try to chart a way ahead for this industry that would serve the people of Ontario well and end up with a strong, viable industry. What I would like to do today is run through my slide presentation, which reviews what we did and some of our proposals.

In some respects, it may be outside the specific scope of this committee; however, many of the decisions made within the government of Ontario, if not in the first instance, are made in the final determination by the Treasurer. Many of the issues are decided on the basis of revenue to the province and the degree of tax and control, so we thought it was appropriate that you should understand a little bit about our industry and the kinds of things we would like to see.

There are some things in the presentation that specifically touch on finance and the economy, and we will address those as we go through them.

Mr. Partington: Mr. Chairman, although there is a quorum, there are only three members present. Could we take two or three minutes to advise our respective caucus offices, to see whether there can be a few more members of this committee present to hear this very important presentation?

Mr. Laughren: What is your riding?

Mr. Partington: My riding is Brock, where the industry has a great presence, but I make that comment with respect to hearing an important group that came here to make a presentation.

Mr. Laughren: I agree with you.

The Acting Chairman: If you want to take time out and make a phone call to all three, go ahead.

Mr. Partington: I will go and find out where the other members of my caucus are.

The Acting Chairman: You may continue, sir.

Mr. Westcott: I have brought along some slides, and I would like to go through them quickly. I think everyone has been given a copy of the text.

In our review of our industry, we came to some conclusions. The grape and wine industry in Ontario is in considerable difficulty, and heavily subsidized European wines control approximately two thirds of our market today, versus about one third in the mid-1970s. We have seen three years of increasing grape and wine surpluses, and the forecast is for that to continue.

There have been and will continue to be serious financial problems as a result of those surpluses and the inability of farmers to sell their grapes and wineries to be able to market their products to consumers. If what we would like to believe are serious actions are not taken very quickly, the trend will be very frustrating for us. There will not be very many growers and producers in perhaps as few as three to five years. It is that serious.

In the right environment, we feel our industry can not only recover but also do very well. We can produce wines of world-class quality right here in the province. We have no difficulty producing them. We send them around the world and we win innumerable medals. There is an understanding that, while we may have come into the game late, we are getting up to speed very quickly.

We believe an improved distribution and merchandising system can restore us to a leading market position and we believe a commitment from the government of Ontario to our industry will ensure the continued viability of the Niagara land use policy which sees the Niagara Peninsula remain a viable farming and fruit-producing area of this province.

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If we believe those things, what is the solution? We have come up with something called the 55 per cent solution. Very simply, it is a proposal for a consumer-driven renewal of the industries.

To digress a bit, for many years and to a large extent continuing today, our industry has been trying to find markets for the kinds of products we can grow in Ontario. I hope that is a sufficiently diplomatic way to say that. For the past 50 years, we have not been looking to the consumer and saying, "What does the consumer want?" We have been saying, "What can we produce and how can we get the consumer to buy it?" I think all around the world we are coming to the point of recognizing that the consumers are the ones who make the decisions. We need to figure out what the consumers want and try to adapt our products and raw materials to the greatest extent possible to satisfy those needs.

Very simply, the 55 per cent solution is to obtain 55 per cent market share for Ontario wines. The reasons for this are simple. At 55 per cent, our industry returns to economic viability. We will not be facing the annual grape crop surpluses. Employment and investment levels for both industry segments, the growers and the wineries, will resume growth. I point out that we are in the fourth year of decline at this point. At some cost again, the government will have a viable land use policy for Niagara. Moreover, the industry will have moved from a highly regulatory supply-oriented approach to a market orientation.

Let us look back four or five years ago. In 1982-83, the Ontario government announced a handling charge on imported wines of 65 cents per 750-millilitre bottle. Actually, that was implemented in the fall of 1981. With that in place, in 1982 and 1983, there were virtually no grape surpluses in Ontario. Indeed, those two years represented the best years our industry has enjoyed in this province without going back 20 or 25 years. There were 10 wineries in operation. Growers were not only selling all their existing plantings, but there was actual pressure to increase the plantings and the quality and varieties of products available to supply the market. The Ontario wine industry was enjoying strong market and financial performance.

I would like to contrast that a bit with what has happened in the past two or three years. In the fall of 1983, it is no secret that, due to intense pressure from the Europeans aided by the Americans, the Ontario government was forced to remove the handling charge on imported wines. It is important to point out that in the two years which followed that, the decline in sales of Ontario wines was incredible. The Niagara accord policy changes were implemented in May 1986 and, on balance, are serving Ontario and our industry very well.

As I explained in my introduction, Dr. Tanner tabled his report in May. We opposed that report for three reasons: (1) it called for greater regulation of our industry with the formation of a grape and wine commission, and we could not agree with that; (2) the economic and commercial benefits of Dr. Tanner's recommendations were not clear and, in many cases, they were not addressed at all; and (3) the solutions or programs suggested were not market-driven. They called for greater government control and less connection to the consumer. Our feeling is that is not the right way to go.

Let us review the performance of our industry a little bit. We have put a chart in here which looks at sales. These numbers are actually market share percentages. By the way, these are LCBO figures. You can see that in 1982-83, our industry commanded in excess of 50 per cent of the market in Ontario. By November 1986, we were down to 38 per cent of the market with some additional percentage in wine coolers.

Our objective is to get to 55 per cent in the retail store system that the government operates, bringing us back to more historic levels and to a level that will return the industry to viability.

Mr. Ashe: A brief question, strictly to do with the chart: There were no coolers at all a few years ago in the boom years. I am surprised to see they are up as high as 7.1 per cent. From the industry's point of view, are they as economically viable in terms of potential profit as straight bottles of wine?

Mr. Westcott: No, not at all.

Mr. Ashe: So the 7.1 is misleading in the context of potential leverage on the bottom line.

Mr. Westcott: Absolutely, and that is why we have separated them out.

Mr. Ashe: Thank you.

Mr. Westcott: The consequences of these changes have been significant. Over this period, the industry has lost something in the order of 2.3 million cases of wine sales in the province. On the upside, we have gained 1.1 million cases of cooler sales, but the fact is there is still a net loss of well over one million cases.

Let me remind everybody that we only sell something in the order of four million cases in Ontario. We are talking about a 25 per cent loss of sales in this province. We have given up, in our estimates, somewhere in the range of $15 million to $20 million because of this decline in profits to companies operating outside of Canada.

The grape growers in Ontario are facing cumulative surpluses in the order of 26,000 tons. Their revenue losses are in the range of $5 million to $7 million. As a result, there is less employment, close to zero new investment being made in the industry, and we are coming to a point where we are beginning to wonder whether the survival of the industry can be counted on.

Finally, the involvement across to the government is increasing every day in terms of the social costs because the industry is declining and because of the direct costs of having to participate in grape surplus takeup programs.

Let us look at what happens in some other jurisdictions, just as a point

of comparison. We believe that once you get below 55 per cent market share, your viability becomes questionable. We have looked at what is going on in a number of other places. In British Columbia, they have managed to turn their situation around and have actually increased and hold a commanding position in the BC market. The Americans have been declining slightly, largely, I would suggest, because of the dollar over the past five or six or seven years, but again, they command 78 per cent of their own market.

To move offshore into both the traditional and the emerging wine nations, it is very simple to understand why those industries in those countries are so successful. They are protected; they are subsidized. As a result, they are coming into North America and into our markets on a very strong basis, that basis being anywhere from 75 per cent to 90 per cent control of their own markets.

What are we going to do to help turn this situation around, in terms of both what are we looking for in co-operation from the government and what we are going to do as an industry?

First, we have to produce a better quality product at a lower cost. We recognize that as a number one objective, and we are working very hard, day after day, to do that. I think we are making tremendous headway.

Second, we have to improve the distribution and merchandising of Ontario wines, which is partially within our control, but largely within the control of the government. You sell our product; the Liquor Control Board of Ontario sells our product. If we cannot put our own best foot forward, nobody can.

Third, we have to make our wines price-attractive; we have to enhance the value in the consumer's eyes. We have gone a long way in doing that and there are some more things that can be done. Our industry particularly has to get out there, hustle and work to enhance the image of our products. Again, we have a program we have been developing over the past year that we think is going to do that.

How do we do that? Let us go through those. We will call it a rebuilding strategy. The first thing we are going to do is produce better quality wine at lower cost. How? We are going to get our quality standards for Ontario table wines up through increased use of more suitable wine grapes. It is happening. It takes a long time to get better quality raw materials. This is Canada. It is perhaps not the best climate in the world, or has not been the best climate in the world, for growing grapes, but we are learning very quickly. We do not have the advantage the Europeans have had, of several hundred, perhaps a thousand years, to perfect their industry and bring it to where it is today.

We have to revise our own Wine Content Act to allow variable production yields, yields that recognize the different qualities and aspects of the different grapes we grow, and link the production standards to the particular qualities of different kinds of grapes. Not all grapes are similarly suited for making all kinds of wines. We have to revise the Wine Content Act to increase the import allowance.

It is no secret that in Ontario, in order to achieve a quality level that the consumer is demanding, we are permitted to do some minor blending of product, wines from outside Canada. We would like to see that increased slightly. Until the time when we can get to the kinds of raw materials we think can be ultimately produced in Ontario, we would like a little more flexibility. The consumer is not waiting for us; he is moving; he is making

his choices. If we cannot compete on a quality level with the kinds of blended products that are coming in from Europe--Kressmann, Le Piat D'Or, Castelli Romani--then, as much ground as we will have been able to cover, we will still never go fast enough to be able to stay in business.

Why? These changes will allow us to move very quickly ahead in our quality versus the little improvement we feel we could make under the current regulations. The real and the perceived quality image of imports is very difficult to take on. That has a great deal to do with the nature of Canadians. We have a tremendous propensity to want to buy things from everywhere else. We think it will speed the transformation of our industry into one of being a world-class producer much more quicky, certainly by the end of the century.

How are we going to do that? First, we are going to improve the distribution and the merchandising. We have a number of ways of doing this. The primary one, the principle one--80 per cent of our product is sold in this crown corporation. We need to achieve 55 per cent of the shelf space allocated in liquor stores to Ontario wines. We need to count on getting 55 per cent of the LCBO merchandising activity. We need to revitalize the wine assistance program that was started in 1976. It served the industry very well and helped us to reorganize ourselves and get to our very successful position in the 1980s. That needs to be looked at, brought into today's environment and made to work to help our industry.

We need to reduce the number of base price listings from outside Canada, and we have to do a number of things to educate and motivate people who work at the LCBO to have confidence in our product and promote our product to customers. It is no secret; I am sure we have all either heard about it or experienced it first hand: You walk into a liquor store, ask about an Ontario wine and somebody says: "You are kidding. You do not want to drink that stuff."

If you have not had that experience in a liquor store, you may have had it on an airline. I had it on Monday of this week flying back on our national airline from Ottawa. We face that and it is a tough thing to beat, but we are developing some programs that we think are going to help us address it, not the least of which is an extensive video program that we are doing, targeted directly at Liquor Control Board of Ontario employees.

That is one of the things we have to do. We have to get the LCBO on side, marketing our products in an aggressive and almost a zealous way. When it comes to selling peas, peaches or apples grown in Ontario, Ontario has no qualms about getting into Loblaws, putting up signs, hustling and saying: "It is grown in Ontario. It is damn good. Buy it." We think we should be taking the same kind of attitude and the same kind of approach with an organization that we control, that the government of Ontario controls.

Another way we can do that is grocery stores. I am not going to dwell on it because you people have certainly spent a great deal of time over the past year and some months talking about it. We have a position on grocery stores. We are in favour of them. I think everyone knows our position.

Mr. Ashe: Is there 55 per cent shelf space or 100 per cent?

Mr. Westcott: I will start with 100 per cent if you want to work towards 100 per cent.

Mr. Ashe: Except that you know that 100 per cent is just as

impractical from a General Agreement on Tariffs and Trade point of view as anything else. I want to see whether you are coming from a realistic or unrealistic position.

Mr. Westcott: I understand that. Our intent is not to eliminate imported products from the shelves; far from it.

I will share something with you. I did a little research and looked in the price catalogue of the LCBO for May 1976. I am not talking about the expensive Bordeaux and burgundy. We are not competing with them and we are not pretending to. We are competing with basic blended products coming out of Europe. Kressmann does not own a winery in France. It is a negotiant. All it does is buy grapes and wine and blend them together. It is a chemical plant.

In 1976, there were 14 blended base-price import general listings in the LCBO. Today, there are well over 100. It is becoming a cereal box kind of competition. They are taking up the shelf space. I do not believe they are offering the consumer a particular range of product quality, and the fact is that we are being bumped out.

Let us remember that in the LCBO today, among general listings, we have 500 listings versus 700 imported wine listings. We are just trying to get a little balance back into the thing. Plus, under the new vintages program operated by the LCBO, there are over 2,000 listings. Three weeks ago, I telephoned and asked how many were Canadian. The answer was three out of 2,000; one from Nova Scotia, one from British Columbia and one from Ontario. I do not think we have to be particularly sensitive about the GATT ramifications of this thing. I think we need to come back to a balanced situation.

The third way we think we can do this is by helping the industry maximize its ability to sell through its own retail stores. We operate 200 retail stores and have done so for some time very successfully, without problem. We employ a large number of people and we provide a lot of service to the wine-buying public. We would like to see a number of things done that would help us to increase our sales. We think we have taken our stores as far as we can go. In the last five years, and I am using the figures a bit roughly, we have doubled our sales volume through our own winery retail stores.

At the same time, we have watched our volume of sales at the LCBO decline dramatically. I suggest, gentlemen, that we know how to merchandise and market our product very appropriately. We are no slouches. We know what to do. Of the 12 top-selling brands in Canada, eight are Canadian. We know what we are doing.

We would like to see some specific things. We would like to see the freeze on the mini-stores removed--these are the ones you see in the front of, in some cases, grocery stores and, in some cases, Zellers--because we think we could do some interesting business in those operations. We would like to see Sunday openings in certain outlets, not everywhere, not across the board, but we operate a lot of wineries in the Niagara Peninsula and we bring a lot of tourists and generate a lot of business. We have a lot of people who come to St. Catharines, Niagara Falls, Niagara-on-the-Lake, throughout Lincoln on a Sunday. They can go and do a wide range of things. They can go and drink beer, wine and spirits. They cannot come to a winery. We think that is a darn shame. It is something that does not operate anywhere else in the world where there is a wine industry and it is time to get on with business.

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We would like to have tastings in those winery retail stores. The Liquor Control Board of Ontario can do it in its vintages stores. We think we can operate them very responsibly and add a significant degree of additional customer service and customer convenience. That is what this is all about. We have to meet the needs of the consumer.

We would like to be able to charge, funny as it may sound, higher prices for our products than in the LCBO. If I am selling a bottle of Brights House wine in my retail store, regardless of what my costs might be and regardless of the fact that I may be providing a much higher level of service and convenience to consumers, I can only charge the price that the LCBO is charging. I cannot charge either less or more; it has to be exactly the same. We are not asking to undercut the LCBO. We are asking for the opportunity to charge more if we believe that the market will support it.

The Acting Chairman (Mr. Haggerty): Mr. Westcott, we are on a time schedule here. Perhaps you can move along a bit. We have five members here who would like to ask some questions.

Mr. Westcott: Okay. I will be very quick. The third area that we think we need to do some work in is to make sure that our products are priced competitively and there are a number of ways we can do that. We feel it is extremely important that we maintain the market differentials between our products and imported products. We would like to index the reference price and adjust it annually, as is done with many other commodities.

We would like to reduce the retail store tax applied to Ontario wines sold through Ontario wineries to one per cent from the present five per cent. We want to say in the strongest possible terms, do not put any more tax increases on us. This is very much affecting your committee.

We are seriously concerned about the encroachment made by products coming on to the market nominally called "home-made wines," both from a public safety and health perspective and from the loss of tax revenue. We would like to see some consideration given on the control of imported grapes coming into service this market. To help us along, we would like to see some consideration given to a lower developmental markup for red wines particularly in Ontario.

Some reasons why: We cannot compete with the treasuries of Germany, Italy and France. I guess it was not until the wheat issue broke in Canada that people outside Europe really wakened up to the subsidy game being played in the world, but our industry, even if it was much larger than it is, cannot compete with their treasuries.

Our winery store profits have moved from about a break-even before the Niagara accord to a substantial loss in current terms. To achieve some answers through the 55 per cent market share is going to take some time to accomplish and we think there is a need for stability.

Mr. Poirier: Is that thousands or millions?

Mr. Westcott: It is $2 million to $3 million. The last thing, and perhaps one of the most important, is a number of initiatives that we are going to be taking in our industry to get our act together, to get our image up, to have consumers thinking positively about us. What are we going to do? We have made an agreement amongst ourselves that we are going to eliminate

North American native grapes in table wine by the year 2000; we are talking about the labrusca grapes--the things that give the wine, in some terms, the foxy character--and everybody should understand this is going to be a very expensive and a very difficult project and accomplishment for us, but we have set that as our target.

We are in the process of developing industry-wide quality standards for Ontario wines. We have asked that the Niagara Peninsula and Essex-Kent be officially declared wine regions. We are investigating and, I think, are well along towards some form of appellation contrôllé system for table wines and we are in the process of developing a comprehensive industry promotion and advertising package to help promote our products amongst consumers.

The reason for doing all these things is that the success of achieving the 55 per cent solution and helping the industry is going to hinge very much on our ability over time to keep accelerating people's attitudes and a perception that Ontario's wines are getting better and that we are producing world-quality products.

I am going to skip over a couple of pages and go right through to the summary; people have some questions. Perhaps we can come back to some of these things. What is the 55 per cent solution going to do? It cannot be implemented partially. That will only give us partial answers. We think it has to be implemented fully.

What is it going to do? It is going to return the Ontario grape and wine industry to long-term economic viability, which means jobs and economic activity here versus some place else. It is going to eliminate annual grape crop surpluses and increase the average wine grape prices for Ontario growers. It is going to return employment investment levels for both parts of the industry to growth. It is going to ensure a viable Niagara-Essex county land use policy for the government and the people of Ontario. Finally, the industry will have moved from a highly regulatory, supply-oriented approach to one that is a market-driven business with a firm collar on the future.

The Acting Chairman: Thank you Mr. Westcott. I have four committee members who wish to ask questions. Mr. Ashe is first, to be followed by Mr. Laughren, Mr. Poirier and Mr. South.

Mr. Ashe: First, let me say that I agree fully with your summary and your goals. Having said that, let me give you a chance to give one free plug to the chagrin of everybody else. What was the one vintage wine on that list from Ontario? You do not know?

Mr. Westcott: I believe it was Chateau Des Charmes.

Mr. Ashe: I figured it might be. You do not know which one though?

Mr. Westcott: No, I am sorry. It was a Chardonnay, I believe.

Mr. Ashe: I would be interested to know. That was not the main thing. Unfortunately, I was a little late coming because I got tied up so I did not hear your introductions and whether they also included the particular companies you work for, as well as working on the council. You may not like what I am going to say first, but I am going to say it anyway.

There is no doubt that some of the problem in the Ontario wine industry was caused by the industry, particularly in its early years, with some of the

garbage it put out. Frankly, in my view, the only reason that it smartened up was because the cottage wineries came in and created competition. All the others, the big boys, have been catching up ever since. Let us not kid ourselves. Where that creates the problem is you have so many Ontarians and the only way you can get them to buy your wine is literally to get them to try our excellent product.

That is the other thing; I happen to think there are excellent products in Ontario now, even though I started out on rather a negative note. I still think that is true. But you cannot get them to even try it because they are thinking back to the time 15 or 25 years ago when they maybe tried it. I am not sure of the time frame. The only way you can get them to try it is to deceive them. It works. I have done it with friends of mine who would not try it. Put it in a different bottle and they have said, "That is great stuff." Then I show them what it is, but that does not solve your problem.

What I do not understand, though, is in the competitive area--we have been hearing this; it is not new, the business of the vast subsidization of many of the imports, particularly from Italy, as I understand it. How come this has not been an issue for GATT? Think of the other side of the coin when the Ontario government did try to give some advantage with that 65-cent-a-bottle handling charge. We got threatened with retaliation. We were probably going to lose the access of our whisky products into the United States and everywhere else. We were going to be brought to the table by GATT.

The Acting Chairman: I think you asked the question about GATT.

Mr. Ashe: Why can it not work the other way? That I cannot understand to this day.

Mr. Westcott: Let me start off by saying that I agree with the last thing you said. Without question, the greatest challenge before the industry is one of product trial, getting the consumer in to try it. That remains one of our key objectives, and it is a tough job. We have a lot of things working against us, not only some of the impressions that consumers have carried over from times past but also, as I alluded to before, the sentiment of Canadians towards purchasing and patronizing home-grown and home-produced products.

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I was in the United States last week, in Washington, in a relatively nice restaurant, and I happened to be with a chap from England who said, "Where are the burgundies?" It was an international restaurant, and the maître d' came over and said: "Excuse me. We do not serve burgundies. We produce perfectly fine wines in our country and we would like to invite you to try them." Find a restaurant in Canada that would do that.

Mr. Ashe: That is for sure.

Mr. Westcott: Find a consumer attitude that would accept that. I have to disagree vehemently with the beginning of your comments. We match the market. We produced a product that could be made here, based on the raw materials that were available.

Mr. Ashe: Maybe we made a mistake in so doing. I agree with you that we did the best with what we could, but that started off as a bad image.

Mr. Westcott: If you look at what was being consumed around the

world in the 1920s, 1930s and 1940s, we were not out of step. We did not make the change as rapidly as some other people, but we did not have the technological ability to do so nor did we have the raw materials.

Mr. Taylor: We used to have a 70-cent Catawba.

Mr. Ashe: No, 85 cents.

Mr. Westcott: Let us not forget that in that period we were very successful at producing products consumers wanted to buy. I am somebody who grew up on sparkling wines.

Mr. Ashe: But that was a fun wine, and it still has a market. That is not the threes and the fours of that group.

Mr. Westcott: We are coming away from that. Our trouble is that we are trying to make up several hundred years in a very few years, and making quality wine is an accumulation of experience and knowledge. We are doing the best we can, but do not shut us out of the gate before we get there.

Mr. Ashe: I could carry on with that one all afternoon. What about the GATT?

Mr. Westcott: Answering your specific question, I am not sure what to say. When I first came to work for these people, I found in our federal government a reluctance to take on the Europeans on trade issues. In fairness to the federal government here, not too many smaller countries were taking on the Europeans, regardless of the trade infractions and the subsidies and the problems they were creating. The world has changed in the past two years. We are all a lot smarter and we are much more aware of the impact of those on our own economies and countries.

In February 1985, the Europeans launched a GATT panel, saying that Canada and Canada's practices had impaired their access to our markets. Without getting into all the specifics of what they said we did and how we did it, I went back to 1980, the first year of the current GATT agreement, the Tokyo Round. I looked at what they sold in Canada then and I looked at what they sold in Canada in 1986. The European producers are up 45 per cent; we are down about 25 per cent. I would like to have some of that kind of impairment.

Mr. Ashe: I do not think that answered the question, frankly. Is it too hard to prove, beyond that business of not wanting to rock the boat earlier? Surely that is not the perception now. When they started all the bitching about the 65 cents, why were we not able to do it then?

Mr. Lister: In the countervailing suit, we did prove they were heavily subsidized but we failed to prove injury. The market share of imports in this province has doubled in the past four or five years, and we are suffering horribly, but we failed at that countervailing time to prove injury. Yes, we were heavily subsidized, yes, they broke all the treaty arrangements, but no, it was not that injurious to our industry.

Mr. Ashe: Obviously, that is baloney.

Mr. Westcott: It was not for lack of asking. We have asked the federal government. I have personally been at the meeting and asked the federal minister to launch an action on behalf of Canada. The federal government has not seen fit to do that, I suspect because we are not a major industry in Canada.

Mr. Ashe: Okay.

The Acting Chairman: I guess you are next, Mr. Laughren.

Mr. Ashe: I am not finished. Excuse me, Mr. Chairman, I have lots of areas, but I will go into only one more, because I think it is very relevant.

In the whole issue of getting people to try it, I encourage anything the government can do, because we have some excellent products if we just get people to try them. Any way that can be encouraged, I think is a plus.

How has British Columbia done it? As I understand it--and I stand to be corrected--its industry is like Kressman. They really do not have an industry of any significance of their own. I know they have a small one in the Okanagan Valley or whatever, but as I understand it, it is not nearly as big as ours. Most of their product comes from California and becomes Canadian in Canadian bottles, I suppose, mixed with one or two of our grapes. How have they been able to get to 56 per cent and up to 59 per cent? Again, they have the same world problems we have.

Mr. Westcott: For example, they have allowed more flexible blending and production standards.

Mr. Ashe: Yes. It is nearly all brought in.

Mr. Westcott: When the taste profile moves there, the BC industry, which is a Canadian industry--the leading people in BC in terms of Canadian producers are the same people as they are in Ontario; these gentlemen represent the two largest companies--has had greater flexibility in terms of staying with the consumer taste profile and meeting that. We are advocating that Ontario take that kind of initiative, because we have not had sufficient flexibility to do that, and part of the problem is not being in close enough step with what the consumer wants. That is why they have been--

Mr. Ashe: Am I incorrect in my statement that most of the BC wine is either Californian grapes or Californian concentrates?

Mr. Lister: Over half the wine produced by British Columbia is imported in some form from California, whether it be bulk or processed in BC. In addition to product, the main reason, historically, that BC wineries have done well is that allowing you to import those two things allows you to satisfy the consumer today, but if he changes, it also allows you to satisfy him tomorrow. You can go and buy something, merchandise it and market it.

The BC government did not allow second package sizes of imported table wine into the province until three years ago. You could not buy a 1.5-litre bottle of imported table wine on the shelf anywhere in British Columbia. They allowed their industry all the time to develop, then allowed it this opportunity. Our government has more than doubled or tripled the amount of imported wines available in this province since 1976, such that there are more foreign wines available for people to buy here than Ontario wines. They are featured to a greater extent in this province.

Mr. Laughren: I assume the council is opposed to free trade, because of what it would obviously do to your--

Mr. Westcott: Yes, very much so, strongly.

Mr. Laughren: Everybody knows this?

Mr. Westcott: Yes.

Mr. Taylor: So you cannot compete with tariffs and duties?

Mr. Westcott: We do not have free trade in automobiles, because we have recognized that we cannot compete with economies of scale between Canada and the United States in automobiles. We are suggesting that if it works in automobiles, maybe we should look at some kind of similar circumstances for agricultural products.

Let us remember, as I said before, that this is a different country. We are a cold-climate country, competing in an agricultural food product with a country that is radically different, that has distinct advantages over us in terms of the kind, quality and yield of raw material that can be produced. I think those things have to be recognized.

Mr. Laughren: You do not have to convince me. I agree with you. I just wanted to make sure that was clearly understood. By the way, I love wine, so I am booster.

Mr. Ashe: Boozer.

Mr. Laughren: Booster.

The Acting Chairman: The word was "booster."

Mr. Laughren: "Booster" is the word. Yes, that is right.

Mr. McFadden: You told us the same thing about another product yesterday.

Mr. Laughren: Yes, I did.

I am concerned, though, about getting a mixed message from you about government. You obviously expect a lot of government intervention in order to make your industry viable.

Mr. Westcott: Let us say a change from the current approach. I am not saying intervention.

Mr. Laughren: Maybe "intervention" is the wrong word. You obviously feel the government has to be almost a partner. I do not mean this in an economic sense of owning shares in your company; that is not what I am talking about, getting into the business or anything like that. Put those fears aside, in order to get Jim Taylor back into his seat. What I am talking about is that you need government as a partner in the fiscal sense and taxation sense to get your industry on the move, because you cannot do it by yourself. Is that fair?

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Mr. Westcott: No. I have to disagree with that. What we are saying is that the government, through its agencies, has pursued a program of promoting and featuring imported products in this country and in this province to a tremendous extent at our expense. If you believe that the industry should be given an opportunity to bring its quality and whatever up to speed--

Mr. Laughren: I agree. I am with you.

Mr. Westcott: If you agree with that, then I do not think it is

appropriate or fair, while that is going on, to have the agency that is responsible for it working at cross-purposes to that.

Mr. Laughren: But you do want the government agency to promote your product and, in a sense, to protect your product and your industry. Right?

Mr. Westcott: I am not sure about protecting it. I would like them to promote it. I go to Loblaws--

Mr. Laughren: What do you call restrictions on trade? Surely that is protecting your industry.

Mr. Lister: With regard to restrictions on trade, there was nothing in the GATT to force the government to build brand-new liquor stores to carry foreign wines, 2000 more new brands in two years.

Mr. Laughren: You are not getting an argument from me on that. All I want you to do is to be honest with us and admit that what you need is government protection to enable your industry to get to be a major player out there, as most of us would like to see you be.

Mr. Westcott: I would like to be able to go to sleep at night thinking that the government is not working against me. If I got that, I would be happy. They are our only customer and they own the stores in this province.

Mr. Laughren: Right, but you want them to have some influence on how your product is displayed in the stores and you want them to protect you at the border.

Mr. Westcott: What they display in the stores we can sell.

Mr. Laughren: I agree with you. I am not trying to hassle you on that. I agree with you that is what you should be doing. I am on your side.

The reason I said there was a mixed message is that on one of the pages headed "The 55 Per Cent Solution" you say under "Situation Background 84/87:" that WCO opposed the Tanner report because it calls for greater industry regulation. Why were you against greater industry regulation?

Mr. Westcott: What they proposed was a grape and wine commission. We now have an industry that makes a product and sells it to consumers. Between making the product and selling it to the consumers, we have an agency and a commission. We have the Liquor Control Board of Ontario and the Liquor Licence Board of Ontario, plus all the various departments of the government that we have to deal with on a wide range of issues. We do not think it would serve anybody's purpose to put one more layer on it.

Mr. Laughren: I missed that. Okay. I understand that. One final point--

The Acting Chairman: Please make it your final point, because we are running short and I have three other committee members.

Mr. Laughren: You also state that the proposed solutions--and I guess this refers to the Tanner report again--were not sufficiently market-driven. Do you really mean you want the market forces to determine the fate of your industry?

Mr. Westcott: We are not afraid to play in the market. What we want

recognized are some of the things that are going on elsewhere. They are allowing products to come into this province at what we believe to be unfairly subsidized low prices--

Mr. Laughren: But the GATT does not agree with you.

Mr. Westcott: With respect, the court is not in yet; the jury is still out.

Mr. Laughren: The only reason I am raising these matters is that I am getting a mixed message from you. That is all. It is hard to say to the government that the wine council wants one thing when it is saying another thing.

Mr. Corbett: Could I speak for a moment on that? We said market-driven because I think that is what we are after. We are after the ability to be able to match the taste profile that the consumer is asking for, so that we can take the available raw material we have today, produce it under the best manufacturing practices and blend it with imported material, if necessary, to get that taste profile. Regulations do not allow us to do that.

The Tanner task force was furthering the regulations and was, if I may say so, aimed more at looking after the grower end of it, the raw material end, and pushing it through the wineries to the consumer. We are saying to let us do it the opposite way. Let us give the consumer what he wants and use the raw material that is there to the best of our ability, by letting us do the regulations and manufacturing on the basis that we feel we know best how to do it, rather than forcing us to do it the other way and then pushing it through the system.

Mr. Laughren: I am with you.

Mr. Corbett: That is why we say market-driven.

Mr. Laughren: It is amazing how much I agree with both the wine council and with the Canadian Manufacturers' Association this morning. It is truly remarkable. I am feeling good about it.

Mr. Taylor: There is a lot of revisionism taking place.

Mr. Poirier: I am really enjoying this, as wine is one of my favourite topics, but I did not tell that to the distillers yesterday, did I?

The Acting Chairman: He is going to France for eight weeks and he wants to take all the samples with him.

Mr. Ashe: You used the same story with the distillers.

Mr. Poirier: I left a note pertaining to that effect. I would like to discuss that further but to this point today, how did you get to that 55 per cent figure? That seems to be an arbitrary figure.

Mr. Westcott: In 1983 we achieved 54.9 per cent of the sales of wine through the liquor stores in Ontario. At that time, our industry was at a zenith. We could not get enough grapes. People were investing, and we have seen a proliferation of wineries. We have gone from 10 to 18. It became a very attractive business.

At the same time, and let us remember this, we were sending wines abroad

to wine competitions and we were winning. We did not have customers complaining about the quality. They were drinking our products. We were selling 55 per cent not a long time ago. We suggest that what has happened in the meantime has been a lot of artificial products, largely coming from Europe, which have put a crimp in our ability to go out and hustle the market.

We went back and asked what was happening when we were doing really well, what has happened in the meantime and how we get back to there. We would like to be at 70 per cent. We think at 55 per cent we can really begin to do some things.

Mr. Poirier: I think in the promotional sense that if you do promote the fine Ontario wines that you do have right now, and I know darn well you do, no matter what the price of other wines from elsewhere, you would be surprised how if you can get Ontarians to try the finer Ontario wines, they will stick with them. I did that test myself with parliamentarians from 30 different countries last fall when they came to Ontario and even to the Ontario Pavilion at Expo 86. We just knocked them right off their chairs and these were wine connoisseurs. They were quite surprised and so was I.

Mr. McFadden: Are you sure it was the taste and not the fact that they were drinking too much?

Mr. Poirier: No, it was not the quantity of wine; it was the quality of the wine.

Mr. Foulds: Knocked off their chairs. I am not sure that is appropriate.

Mr. Poirier: Thank you, Mr. McFadden, for helping me explain that. Yes, it was the quality and not the quantity.

Mr. McFadden: I did not want the record to be confused.

Mr. Taylor: No antifreeze either.

Mr. Poirier: I think the major reason is the way it is being promoted. I come from the far east of Ontario, Prescott-Russell, and people know very little about Ontario wines. For you Prescott-Russell may be very far away. Prescott-Russell, east of Ottawa, is very far from Niagara and Essex county, and we have started to take it into our own hands to promote it. What will you be doing to take it all across Ontario?

Mr. Lister: We have an extensive marketing program together which is part of this whole solution paper. We are not in the process of launching it this time; we are in the process of assembling it. We have a video program we are putting together and several other areas we are considering.

Mr. Westcott: Let me give you one specific. We are not in control of who sells our product day to day; it is the clerk and the manager in the liquor stores. We have done some research with other people and we have said to ourselves, if we can improve the understanding, the knowledge and the attitude and give the front-line retailers more confidence in our product, then we will have made great strides in helping our sales.

We have embarked on a less expensive program of supplying video training materials to the LCBO. We are looking at having a series of 20 or 25 meetings across the province with store-level LCBO people to introduce ourselves again

and to make them aware of the changes that have taken place in our product. We also want to remind them that a lot of people in this province do buy our products and enjoy them and that they represent a significant value.

The Acting Chairman: Mr. South.

Mr. South: My question has been asked, thank you.

The Acting Chairman: Back to Mr. Partington. I know he is going to deal with the bread-and-butter issue of jobs.

Mr. Partington: Back to Sunday openings and winery kiosks: If there was a lifting of the freeze on wine kiosks, coupled with the right to charge higher prices in wine kiosks, do you see a substantial increase in the number of wine kiosks and would that then be profitable to the wineries?

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Mr. Westcott: I think so. I am hedging a bit because the government adopted the new pricing and markup system. Today, if you sell your product through one of your own wine retail stores, you should not be paying any markup money to the Liquor Control Board of Ontario because it is not seeing your product. It does not handle it or do anything with it. Of course, any product sold through our own stores pays all the appropriate federal excise tax, federal sales tax and the 12 per cent Ontario retail sales tax. Also tagged on to us is a five per cent retail store tax. We are finding that five per cent retail store tax is, in the present circumstances, the difference between making a small profit or breaking even and losing money. We are in the midst of developing a profitability study on retail stores with a view to asking the Treasurer (Mr. Nixon) to reduce the store tax. We would have liked to have had it today.

We do not see the fairness or the equity in levying two taxes on products just because they happen to be sold in our retail stores when the government is getting an appropriate tax in terms of the federal and retail sales tax in Ontario. If we could make some headway on the five per cent store tax, I think you would see a significant number of wineries expressing interest in--

Mr. Partington: That would increase sales.

Mr. Westcott: It would increase sales. It would create jobs. There would be construction to build those units. Most important, and I think one thing that cannot be lost here, is that one of the most critical things our 200 stores do is create volume, exposure and experience. Remember, I said the greatest challenge was getting the consumer to try it. We have had a tremendous success in getting consumers to try new things in our stores. Our sales have gone way up. I would match our performance against the Liquor Control Board of Ontario any time.

The Acting Chairman: You said three questions. What is the second question?

Mr. Partington: My second question is about Sunday openings. As you know, the town of Niagara-on-the-Lake is an historic town and is designated as a tourist area. By regulation, could the province permit openings of wine stores in that area without amending the Retail Business Holidays Act?

Mr. Westcott: We believe so. The precedent exists. Unfortunately, because of where Mr. Magder is on Spadina, he cannot open his stores. If you are on Bloor Street or down there, they have allowed exemptions to the Retail Business Holidays Act that allow them to open and we would like to fit in. We are talking about tourist areas.

Mr. Partington: I agree, and I am just asking how you are going to fit in the ones that are already in a tourist area. There are a few of them.

Mr. Westcott: We think that should happen right away.

Mr. Partington: How are you going to deal with those wineries that are not in a tourist area?

Mr. Lister: We believe the Niagara Peninsula should be a tourist area and Essex could possibly be as well.

Mr. Partington: So you would deal with that through the region of Niagara.

Mr. Lister: Sure.

Mr. Westcott: I think it is step 1, step 2, step 3.

Mr. Partington: My last question is, if the grape farmers in the region and you came to the government and said, "We would like to change the Wine Content Act," why would you not just go ahead and do it? Why is there difficulty with that?

Mr. Lister: We have been known to have the occasional meeting with the grape growers.

Mr. Westcott: Let me give you the answer that I was told was a bit of a cop-out, but it is a quick answer. When McDonald's decided to make chicken fingers or whatever they are called--

Mr. McFadden: McNuggets.

Mr. Westcott: --chicken nuggets, and everybody else, they went out and did some consumer research to find out what the consumer wanted, and of course they consulted the chicken grower to find out if he could produce it. They did not go to the chicken grower first and ask, "What can you produce and then we will flog it to the consumer?" It has to be that way. We are the people who make the wine. We are the people who merchandise and market it. I think those decisions have to be ours, and there are going to be differences between ourselves and the growers.

Mr. Partington: Yes, except that I have heard your position that you would probably, in the end, produce more wine because it would be more attractively sold. I wonder why you have not been able to convince the grape growers.

Mr. Westcott: We have not been able to convince them. I guess that is--

Mr. Partington: That was my last question.

The Acting Chairman: One final question from Mr. Ashe and then I think we are going to have to wind up.

Mr. Ashe: I hope it is very relevant to this committee because it is related to tax. On the rare opportunities when a winery or group of wineries can have their products tasted--I am talking about a tasting situation--under the current law are they obligated to pour that at, let us call it, retail prices or at their net price before taxes?

Mr. Corbett: I think I understand. If we are doing sampling today under today's regulation, we supply the wine and pay all taxes on it, the federal excise, federal sales and provincial sales taxes. The Steven Offer report, which just went through, wants to change that so that we have to buy all the product from the LCBO and pay the LCBO markup as well, which would add an additional expense to us of approximately $1.50 or $1.75 a litre over and above what we are paying now. We are paying all the existing taxes but we do not want to have to pay any additional taxes to do that sampling.

Mr. Ashe: Okay. What I was coming at was exactly the opposite. If you go back to some of my remarks before, even though you may have disagreed with the initial one, I think the key is that we have to get more people to taste it. I think there are two things. We have to increase the opportunities to taste it and we have to make it a bearable price situation so that we are more inclined, collectively or individually, to have people taste it. If it was at a cost price, that would be much more attractive than if taxes were added on, let alone markup.

Mr. South: Convert more people to the Anglican Church.

Interjection: No, that is too sweet.

The Acting Chairman: I thank the members of the wine industry for their stimulating discussion this afternoon. I am sure they have raised some concerns for the committee members. We wish you the very best.

Mr. Westcott: If I can sum up in almost one sentence, what we would like from the government and from consideration of members such as yourselves is that--the government of Ontario used to give the liquor board some pretty strong, solid, positive direction about what it should be doing to help the industry in Ontario. I believe that when Ontario Hydro is going out to make purchases, it gets directions from the government about what it should be doing and where it should be going.

The Acting Chairman: That is debatable.

Mr. Westcott: One way or the other.

Mr. Foulds: It is the other way around.

Mr. Westcott: Is it? Bad choice then. We are asking that the government examine whether it can go back to giving some kind of positive direction to the liquor board. We will be happy to provide a "how to." We are very sensitive to the trade issues. I spent a great deal of time in Ottawa talking to the federal government and the other side, the importers. We are very sensitive to that. We think there are ways you can accommodate those concerns but at the same time put Ontario's interests and best foot forward.

The Acting Chairman: I am sure we will take your comments seriously

and perhaps the recommendations from the committee may be in that report to the Treasurer.

Mr. Westcott: Thank you. We have appreciated the opportunity.

The Acting Chairman: The Ontario Federation of Labour, please. We have Sean O'Flynn, secretary-treasurer, representing the Ontario Federation of Labour, and Jo Surich and John Eleen.

ONTARIO FEDERATION OF LABOUR

Mr. O'Flynn: Thank you for the opportunity of engaging in a dialogue with you about these matters prior to the budget. You have the brief before you so there is no point in our wasting your time and ours by reading through it in detail. We would just like to draw attention to particular points in it that we would like you to take some action on as a committee and as a government.

We are particularly concerned about the situation at the moment with the northern economy. The northern economy is suffering while the southern economy seems to be booming. We think the policies you develop should deal with that situation, should seek to protect, preserve and develop jobs in the north.

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When we look at the development of skills, we see a big gap here in terms of the training of youth. We think this government should place emphasis on training programs and apprenticeship programs to train the workers of tomorrow. With regard to the infrastructure, we think now is a good time to pay attention to the roads and the highway systems and to develop jobs in those areas.

During the year, the OFL has presented the government and many committees with briefs on equal pay for work of equal value, universal child care and issues regarding pensions. We think it would be a good idea if the government took action on these matters and did something about these issues, recognizing that they are going to cost money. The policy we put forward in these areas calls for some action on the part of government.

That is the summary of our presentation. If you have any questions, we will answer them.

Mr. Laughren: The question I always want to put to either a labour organization or an employer organization has to do with employment. It is not very often any more that you hear anyone calling for full employment. It seems to have settled in that unemployment is structural in our system and is something we can try to hack away at, get it down as low as we can, but basically it is part of our system.

I notice in your recommendation you say, "Full employment must be the cornerstone of government economic and social policy." I do not want to give the impression I do not believe you, but is that a serious commitment by the OFL that it really is going to have that as one of its major ongoing priorities or is it something that just needs to be said every now and again?

Mr. O'Flynn: We think full employment is a growing philosophy and a principle that related movements have subscribed to for as long as I can remember. What we are concerned about is trying to develop a situation in

which youth, middle-aged and those who are approaching their retiring years can have the surety that they will be able to earn a living. The statement of full employment and setting that as a goal is not a pie-in-the-sky statement. It has practical implications for government as to how it sees human beings and treats them. We regard that as a serious goal and it should be a serious goal of the government.

Mr. Laughren: Any time there is serious discussion about it, rather than just sort of rhetorical flourishes, there is a sense that the labour movement has to be part of any kind of agreement to make this a serious goal, that government cannot do it alone and industry cannot do it alone, that labour has to be part of it. I have never quite understood what control labour has over the question of employment. I do not know whether the OFL has thought seriously about whether there are any downsides to such a goal in terms of tradeoffs the labour movement might have to make to achieve it. I do not know the answer.

Mr. Surich: Maybe I can address that point, Mr. Laughren. I think the situation this society is in is not one in which the labour movement necessarily has to be concerned about the long-term consequences of collaboration between management, industry and labour because we are one heck of a long way away from that.

The problem initially is to convince governments, provincial and federal, that they have a positive role to play in the economy because I do not see a whole lot of evidence of that. There is the occasional tinkering with tax systems and the occasional make-work projects, but there is no real evidence of any kind of serious long-term planning.

Just to add to Mr. O'Flynn's point about the enormous difference at this point between the process of economic development in the north as opposed to the south, I think the case can and should be made that any attempt to deal with the northern economy has to look beyond simple market forces because simple market forces have brought the northern economy to where it is--I think it is pretty rough shape--without a whole lot of evidence I can see that it is going to improve.

What that means, in turn, is that government together with whatever businesses are committed to operating in the north, aside from simply extracting its raw materials, and workers and their organizations has to begin the process of setting a strategy for developing that part of the province, using public investment where necessary, encouraging private investment where that is available and possible and encouraging much more extensive involvement by working people in some fairly basic processes of decision-making. None of that, at this stage, occurs.

Mr. Eleen: I want to add to that. I have the experience of having gone before at least half a dozen Treasurers in the last two decades with a brief of this sort and it seems to me that Treasurers have a preoccupation with how to bring in some gimmicks to get a little bit more tax money. Economic policy is very seldom promoted in the budgets. They are just short-term things to attract the voter, especially before an election.

Now in this budget we might not have an increase in taxes, I hope, but real economic policy has to be made also in other areas than just during the budget. Because governments have not had real goals for the economy, that is a problem. One of the goals should be full employment and that is always missing. The only time government talked about full employment was when

Mulroney talked about "jobs, jobs, jobs." I suppose he was trying to say that and that is all it meant.

You have to have an economic policy, as we said in our statement to the convention, that will make Ontario work. That is what is missing in some of the presentations when the budget is handed down.

Mr. Taylor: As a matter of fact, Mr. Laughren anticipated the question I was going to ask.

The Acting Chairman (Mr. Haggerty): Two great minds think alike.

Mr. Taylor: We are very similar in so much of our thought. We will pause while everybody has a good laugh.

This week we have heard from people like Ken Dryden in terms of youth and the very serious problem there. One loses faith in this country, never mind this province, when we spend billions of dollars every year on educating our youth and then, when they graduate, they find that the jobs are just not there to match their particular talents, expertise or training.

You start to question the system. It was put to us pretty forcefully by Ken Dryden: "Are you really serious? Do you have a total commitment to embracing the goal of full employment? Do you have that commitment? If you do, then there are certain things you have to put into place to achieve that goal." I guess whether it is ever achievable is a matter of speculation, but surely the commitment must be there. It must be there not only on the part of government, but also on the part of business enterprise and the unions which represent, in general terms, organized labour.

What I am concerned about, as is Mr. Laughren, is whether there are policies on your part that might in some way frustrate that goal. For example--and I am on my own now--

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Mr. Laughren: You were from the beginning.

Mr. Ashe: I am surprised you stayed that close that long.

Mr. Taylor: I am not only on my own, but I also have my New Democratic Party colleague at my back. No, I feel comfortable. I always feel comfortable with you at my back, only because of your stature. If you were any taller, I would be intimidated.

In any event, for example, one of my constituents called me. He wanted a job. The job was there, and it was with Ontario Hydro, as a matter of fact. He could not be accepted into the union. It was a closed shop, so he could not get the job because he could not get union membership. I think it was worked out in terms of a work certificate and paying whatever it was per week to the union to get the certificate so he could be hired by Hydro.

As I say, I do not know how protective unions are in terms of union hall hiring and closed memberships that may not open up to others with the required skills so that they might engage in a job that is there. In this case, they would have had to go out of the country to hire someone. They searched the country from coast to coast.

You have the whole problem of apprenticeships. I am wondering whether the unions, employer groups or governments can do something to improve the training, the skills and the apprenticeship program, where we are in dire need of help.

You talk about northern Ontario. I know something about northern Ontario. I was born and raised there. I had to come out of the bush to go to school here, because they did not build universities in the bush in those days. I understand something about the transitional nature of communities and mining and logging camps and so on. Now, living in eastern Ontario, I see a lot of similarities. It is not just northern Ontario. We have conditions in parts of eastern Ontario that are probably as severe as they are in northern Ontario. When you talk about full employment, you are probably talking about the large urban areas of Ontario.

With regard to our part of Ontario, and I am talking about eastern Ontario, there is a big need for skills and skill training. The expertise is just not there in the quantity that is necessary. There is the whole problem of mobility of labour.

I agree with many of the things you said. For example, I have been an advocate of pension reform for many years. I think that will assist in terms of mobility of labour. You will get full vesting of pension rights and so on.

The Acting Chairman: I do not want you to lose those two questions you asked.

Mr. Taylor: I will not lose them. I was going to ensure that you were following this very closely.

The Acting Chairman: I am following you very intently.

Mr. Taylor: I do not want you to lose sight of the very important area that I want addressed by the membership before the committee today. I am anxious for your response.

It is in the ecumenical sense, not in a sense of partisanship, believe me. It is in the sense of working together in order to achieve what I think should be the hopes, aspirations and goals of humanity, not in any partisan way.

Mr. Laughren: Is that the question?

Mr. Taylor: Yes, that is the question. Can you indicate the inhibitions to that, the restrictions from the trade unionists' points of view in the areas of working towards better mobility of labour, skills development, frustration of entrance into job opportunities, and that kind of thing?

The Acting Chairman: You have about 12 questions there. If you can just kind of condense them.

Mr. O'Flynn: I will take your question seriously. I was going to ask you to repeat it, but I thought I better not.

We represent about 800,000 workers in the province. The concerns that you expressed do not apply at all to most of them. The normal situation is one in which you apply to the employer for work, you get work and you join the union, if you are fortunate enough to have a union. That is the normal

situation. That applies to the vast majority of workers we represent.

In the situation that you spoke of, it seems this person wanted a job, and as you described it he was not prepared to pay his dues, but once he was prepared to pay his dues, he was allowed into the union and he was given a job.

Mr. Taylor: Excuse me. May I just correct the record there. This is not an attack on union-hall hiring or closed shops. In this case, there was a prohibition on joining the union because in order to protect the membership of that union, they did not want to unnecessarily expand the membership when times got tighter. There was no argument in terms of paying dues or no wish not to pay dues. It was a friendly arrangement. It was a matter of the process of finding a mechanism so the person could get the job, but that was only one example.

Mr. O'Flynn: Right. There are bound to be imperfections in every system and in the market system as indeed there is in the labour market system. This province and this country have a long way to go before they express any serious intent about addressing the problem of trying to train young people. In European countries the norm is that people are trained from the time they leave school and they are trained on a continuing part-time education basis. That is the norm. The employers pay for this training partly by a levy. That is the norm.

Here, those who feel like training, train. The employers who do not want to spend any money on that, do not spend it. The government has a long way to go in order to introduce an integrated system so young people will expect that when they leave school, they will be trained in industry. I am sure I can speak for the labour movement in saying that we will sit down and address any concerns about training, apprenticeships and entrance into the market as soon as the government gives us some priority to address that situation. Mr. Eleen and Mr. Surich want to add to that.

Mr. Eleen: I want to deal with one question that was raised by Mr. Taylor and that is the question of the one-industry towns in the north. In our proposals, we say, "Why not build a mining machinery company in the north, in North Bay, Timmins, Sudbury, or wherever?" Certainly we import over 90 per cent of our mining machinery. It is not very complicated machinery. I have been in the mines. We import probably around 60 per cent of machinery in general, but, the last time I looked at the figures, mining machinery was well over 90 per cent. That is preposterous. We are the third-largest mining country in the world, and Ontario is the centre of it. The north is being bled to death, and there is no secondary industry there. We are importing machinery.

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We have another proposal, that we have Canadian content. Although we are talking about the auto industry, we are also talking about Canadian content in other industries. That is where the jobs are. We are exporting jobs. That is another proposal.

We have a proposal in the brief that we build a two-lane highway from the Manitoba border, so that Kenora is not part of Manitoba, but becomes part of Ontario, and all that northern part will have access to the rest of us, to down where you are living, so you will say, "You are no longer up there." That is a very isolated part of the country. We have to have a good highway. My parents live in Manitoba. I have gone across that highway a number of times. It is horrible. There are jobs there, if you are interested in the north.

I think there is all kinds of room for giving some stimulus to the economy if there is a commitment to the question of jobs, a commitment, as somebody mentioned earlier, to full employment. That is what we need. You cannot bring these things about unless you have that commitment. I think the legislators have a responsibility, regardless of who you are, to see that there is that commitment in government to bring about a policy, a goal of full employment.

Mr. Surich: Let me just address what I think was the broader question in all that. The work done in this province by government to deal with the whole question of providing skills training for individuals and ultimately providing skilled individuals to industry and employers generally is in a state of gross underdevelopment, worsened by the current strategy of the federal government, which, in its Canadian Jobs Strategy, appears to have decided that the federal government in fact has no role in the area at all. No matter how you slice or torture the numbers, the reality is that there has been a continuous cutback in transfers from the federal government to the training area.

In turn, the provincial government has established a so-called Ministry of Skills Development, with a training strategy that sets aside some money, half of which is designated for direct transfers to business as some sort of carrot for training. The reality of course is that business in this country has never taken its training responsibility seriously since the beginning of time and does not now take its training responsibility seriously.

Look at the data on apprenticeship. You find that the largest employers of skilled tradespersons of all kinds are in fact large manufacturing concerns. They are also the same concerns that, in large part, have no apprenticeship programs whatsoever or, alternatively, have them with no incumbent apprentices in them. In turn, you find a whole bunch of smaller Canadian-owned firms that do in fact train apprentices and that, as soon as they finish doing that, lose them to the large firm that approaches, because it is able to offer higher wages, more security or the excitement of working for a large company instead of a small one.

The reality is that if you are going to deal with that problem, you cannot leave it to business to initiate the process, and you cannot use public funds, as we have tended to do in the past, somehow to induce business to undertake training. Quite frankly, that is not how the process works. Ontario's Training Strategy takes $50 million and gives it to business, or promises to. That equals the sum of money spent by General Motors this year on training, so it is a drop in the bucket. I gather a significant sum of it was given to Toyota to train assembly workers in Cambridge. That is nice, but does not deal with the longer-term problem.

If there is any sense that we really seriously want to deal with the question of the development of skills in this society, then we have to develop a long-term commitment on the part of government, industry, the labour movement and working people in general to develop a training culture, and make it simply a part of the process of producing a good or a service that people will learn along the way, and will, in fact, get training. There is virtually no evidence of that at all. Nor is there any serious evidence of a commitment for that kind of thing in the longer term.

It is not a quick fix. That is part of the problem. In a sense, sometimes I wonder why you have these meetings. It is a pleasure to talk.

Mr. Taylor: You are not alone in that.

Mr. Surich: I am sure. You do not fix the problem of training by looking for a quick fix. There is no quick fix. What you are talking about is a long-term commitment that never stops. It will go on long after we are all going to be gone, to use public funds, to use private resources and use the skills and energy of working people to develop a culture in which training ongoing through life is simply a part of the process. That takes long-term strategic planning, just as developing the North is going to take that kind of planning.

Mr. Taylor: Are you saying that has never been seriously tackled?

Mr. O'Flynn: Absolutely, not in this country.

Mr. Taylor: It is obvious it has never been accomplished. It is sad that it has never even been seriously tackled here.

Mr. O'Flynn: That is right. The Tories never got at it. I was a party to many presentations that were made to the government pointing out the schemes on the continent of Europe, which addressed the problem of training, or encouraged them to look at those and adapt some of their schemes.

Mr. Partington: A supplementary: Is it not also an attitudinal problem with all of the people of Ontario, including the people, union members who want their sons or daughters to graduate and become Ph.Ds and never get involved in the skills of carpentry or bricklaying, or anything else? Have they not had an attitudinal problem over the last years?

Mr. Surich; I have a problem calling it an "attitudinal problem," and I will tell you why. According to data collected by this government, 10 per cent of all adult education offered in this province is done by the labour movement internally. All of the experience that all of our affiliates have had offering courses, many of them internal, is that you can never deliver enough of that stuff. The demand among potential consumers grossly exceeds our capacity to deliver, and I think it grossly exceeds out there, in terms of the other skills, the capacity of the system to deliver. I do not think there is an attitudinal problem at all. I think there is a major access and delivery problem.

Mr. Partington: I sense that a lot of people miss tremendous opportunities. You see the carpenter who becomes a home builder. You see tremendous opportunities and then you see university graduates who are not trained to do anything.

Mr. O'Flynn: Look at the unemployment picture. You will not find very many university people unemployed. You read in the paper about a few but, in the main, those who have higher education find employment. Those are not the people who are disadvantaged, it is the people who do not get into training. They do not want to go to a university. They should be trained in skills.

Mr. Surich: Unemployment among university graduates is half that of the rest of them.

Mr. Ashe: I have a supplementary in that same area of training and apprenticeships. You are not going to like this question but that is par for the course. Has the union movement generally, and I am talking about it from

the top, changed to give different direction into a lot of the affiliates? I am not saying all of the union members in terms of different trades, etc., to be more realistic to apprenticeship situations.

I used to get--I will be honest, I have not lately, and maybe it is just our new climate--small businesses, small manufacturers, etc. who said: "I want to bring on people and train them but my union says that if I bring the guy on to work next to the other guy I have to pay him the same wage. I cannot afford to do that. He is not going to be productive for two or three years, and my union will not allow me to take care of that problem."

I am not talking about General Motors or Chrysler Corp., or what have you, I am talking about the little guy who maybe only has a shop of six, eight, 10 or 15 people but his workers are unionized.

Mr. O'Flynn: Those who have worked for some time in various places learn it is not beyond the capability of the employer to abuse situations and people. There is a lot of experience with that in the trade union movement, so a certain amount of scepticism arises when an employer complains that he wants to get someone to do a job and to pay them less. We would have to examine the case and see how much training is involved to do the job and all those kinds of factors.

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You are right. Workers have learned to be suspicious of employers who say they want to bring in someone and get him to work and produce and pay him less than they are paid. We are naturally suspicious of that.

Mr. Ashe: To me, that defeats the whole philosophy you are agreeing with--I think we are all agreeing with--that we have not done an apprentice-type philosophy or job at all.

Mr. O'Flynn: I did not mention the word "apprentice." You did. Only in the latter part did you mention the word "apprenticeship."

Mr. Ashe: In my view, that is still an apprentice. If a person is learning, he may have to be going to night school and at the same time learning on the job. That is apprenticeship.

Mr. Foulds: I have a couple of questions. In your brief, you indicate a number of areas where you believe you could create jobs, such as the doubling of a highway. I support that, having had trouble with my car on an inadequate stretch on that highway just before Christmas. You talk about creating jobs in the health sector and you give some practical suggestions about creating jobs in a number of areas.

I think though, if you put all those pieces together, you still would not create full employment in the province. There would have to be a package of other things that go along with that. Is the trade union movement committed to some tradeoffs? Would it look positively on a reduction in overtime, for example? Would it look positively on some work-sharing programs?

Mr. O'Flynn: The labour movement presented a brief on the issue of overtime to the task force that was set up. Its position at that time was and still is that people should not be working overtime when people are unemployed.

Sure, the labour movement is capable of making change. If you look at

the tremendous steps it has made in integrating women into the trade union movement at the highest levels by changing its traditions in a radical kind of way, that should give evidence that the trade union movement is responsive and able and willing to respond to the situation. It is willing to enter into a dialogue with government and the employer on these issues.

Mr. Foulds: What I want to hear on record is that the trade union movement, through the OFL, is ready to make some of the tradeoffs in terms of what has been a traditional work pattern to try to achieve a full-employment economy.

Mr. O'Flynn: The trade union movement is prepared to enter into a dialogue to achieve full employment and to make whatever accommodations it has to make to achieve that goal, given that the other partners, government and the employer, are also prepared to enter into that dialogue and make accommodations, of course.

Mr. Foulds: I was also struck by your view of tax reform. We have had a number of people come before us over the past several days talking about tax reform, but they indicated to us they wanted revenue-neutral tax reform. I do not know what revenue-neutral tax reform means.

Mr. Ashe: Same in, same out.

Mr. Foulds: I think revenue-neutral tax reform means a different form than the status quo. In your tax proposals, you indicate there is an increasing burden on the individual taxpayer, an increasing burden on the middle- and low-income taxpayers. I wonder if you could indicate to us the basis for those statements.

For example, you say on page 5, "Lower-income two-parent families will face up to a 60 per cent increase in taxation by 1990, compared to a 12 per cent increase for upper-income families. Lower-income one-parent families will face a 75 per cent to 100 per cent increase compared to a 12 per cent to 14 per cent increase for upper-income groups."

I find those statistics quite shocking. I wonder if you could elaborate on the source of that and the reason for the projections.

Mr. Eleen: If you have watched what happens during budgets in this province and in the federal jurisdiction throughout the years, the bite almost always has been on the lower-income people and sometimes lessening for the others. There is revenue there, but it is taken from the wrong people. When that first question was raised, you used the term "revenue-neutral." There is money there, but it is taken from the wrong people.

The figures we got were from someone from Statistics Canada and the taxation department. Unfortunately, we have to go to the United States to get some of these figures, because we do not have the freedom of information to get them directly. That is another story. The figures have been used a number of times, not only by us but also by others. They are fairly accurate to the extent that you could project based on past performance.

Mr. Foulds: You are doing projections based on the pattern that evolves--

Mr. Eleen: If it carries on the way it is carrying on, that is what will happen to families in the next period. I believe there has to be more

attention paid to reform and not just gimmicky reform; there has to be a restructuring of the tax system. I do not know why the Carter Royal Commission on Taxation is so burdened with dust, but it was a good report.

When they are talking about tax reform in government circles, they are really talking about minor changes. I think they have to look at some of that stuff. We talk about a progressive tax system--

Mr. Foulds: I have one last question. During these hearings, I have found it difficult to find out what corporate income tax is paid by sector. For example, when we had the insurance people before us and I asked them how much corporate income tax they paid as a sector, they could not tell me. When I asked representatives of another industry, they could not tell me. Do you think that information--

Mr. Eleen: They are embarrassed.

Mr. Foulds: During previous hearings, two insurance companies told me they had not paid corporate income tax since 1972, and that was in a foreign jurisdiction.

Do you think it would be healthy for tax reform if we made public--at least not by company, but by sector, like the manufacturing sector, the resource sector and the insurance sector--the corporate income tax paid by those sectors?

Mr. Surich: The amount deferred would be kind of handy.

Mr. Foulds: And the amount deferred.

Mr. O'Flynn: How much they got off the government in deductions from the tax bill.

Mr. Surich: Just to add to that, there was a letter that came to my desk from one of the firms out there that do corporate education. The headline said, "$8 billion"--which caught my attention as, I am sure, it was designed to do--"the sum total of government grants and exemptions and gifts available to the corporate sector in Ontario. Too much to miss. Please join this seminar and we will teach you how to get a hold of some of that $8 billion." In a sense, I guess--

Mr. Ashe: Now is a great time.

Mr. Surich: That caught my attention. I have used it in speeches many times since, because it is a classic representation of the problem we are in.

Mr. Partington: Your recommendation 9 deals with property taxes. I share your view in this case that there seems to be a growing burden of taxation shifting from federal and provincial governments to the property owner. It particularly hurts the elderly on a fixed income and the young families starting out.

You indicated that property tax should be only the cost of services to the property. Would you be in favour of, for example, the government taking a larger share of the education tax, which is 44 per cent at present? Would you also be in favour of a tax reform where there would be tax credits for the amount of income tax paid? Would you see that as going in the same direction?

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Mr. Eleen: We say that a lot of these taxes would be more appropriate under the income tax rather than sales tax, property tax, or things of that sort. In this case, we have to make some changes on that.

There is a commission set up on the indexing of pensions. There was an ad in the paper today. One of the things they will have to tackle there is the fact that people are paying for their houses during their whole lifetime, then they retire and cannot pay their taxes because their property tax, not their income tax, is going up. Property tax is going up and their income is going down progressively each year because pensions are not indexed. That is only a peripheral problem, but it is a real problem.

I think the more regressive taxes have to be eliminated. Sales tax is one of the most regressive and the one that is creeping up each time. Even when there is not supposed to be a tax increase, there is almost invariable sales tax and property tax.

Mr. Partington: One other question I have is about your recommendation 7, that Ontario diversify its international trade links to reduce dependence on the American market. Ontario does 90 per cent of its trade with the US, and Canada does 80 per cent.

In view of our geographical location and the other trading blocs around the world, and to the extent that we both seem to be, if you like, threatened competitively by Third World countries or people who offer less benefits and pay less money than we do, is it not realistic to assume that we will always have a very high dependency on the US and that, in effect, we should work with it and maybe, at the same time, try to improve our prospects elsewhere?

Mr. Eleen: That is Mr. Surich's area, but I want to say it is not good to have all our eggs in one basket. We should be trading with other countries, rather than depending on US trade, and developing our domestic market.

Mr. Partington: How can we develop our trade?

Mr. Eleen: We are not going to develop our domestic market by having a McDonald's hamburger type of an economy, where groups are selling hamburgers and fried chicken to one another, and there are low-paid jobs and so on. We have to concentrate on retaining and bringing back some of those middle-income jobs that we are losing to the service industries and to the low-paid great big middle that is appearing now.

Mr. Surich: I would like to address the specific question you have raised. Of course, it would be foolish not to recognize Ontario's dependence on trade, specifically with the US. On a per capita basis, it is probably larger than any other industrialized country anywhere. It is obviously not logical either to argue that we would not always be involved in a vast amount of trade with the US; just the proximity to its markets determines that. The nature of our manufacturing industry also determines that.

The key point is that the dependency on the United States with which we live in Ontario and Canada--certainly in Ontario more than anywhere else--is not simply dependency on markets; it is also a dependency on US technology, US branch plants and US decisions made with respect to a whole lot of other questions.

In the long term, if we want to build a more viable Ontario economy--and I do not suggest for one minute that it is not viable, because it is, except for some significant chunks in the north and in the east--then I think we do have to look at those sectors of Ontario manufacturing which are not in a sense locked into the American market by virtue of ownership relations, for example, and look at the opportunities which I am quite convinced do exist for export outside of the North American market.

What that requires--and I almost hesitate to repeat this--is something more than simply depending on the market to make the determination. The reality is that when firms in Ontario are looking for markets outside Canada, they look to the US, because that is easier. Alternatively, they look to the US because of their relationship to firms there.

If you are going to get a broader, more world-oriented view of the process, the government is going to have to do a great deal more than it already has done--and it has been active in that area--in a sense, to orient our manufacturers and producers of certain kinds of services, consulting services of various kinds, to where they can be competitive, orient them to a world market rather than the one that is easy.

Mr. McFadden: I have a number of questions, but the hour is getting late and members have been here all day. Maybe what I will do is ask several specific questions.

At the top of page 3, you make a proposal. You say, "Secondary industries must be expanded." I take it you are talking about manufacturing. You say, "New job-intensive industries must be created." Can you be more specific about what you mean by "new job-intensive industries"? Are you referring only to the heavy tool industry and the mining machinery manufacturers? What else are you talking about when you talk about new job-intensive industries?

Mr. Eleen: We are responding to the politicians who get up during elections and say, "We created 100,000 jobs." That is not good enough.

Mr. Taylor: Not only that, it is not true.

Mr. Eleen: And it is not true. It is very possible to create 100,000 jobs. The government does not even have anything to do with it sometimes. They create all these hamburger joints across the country. That is a hell of a lot of jobs, but the employees are working only 28 hours a week at minimum wage or less, in fact. Those are not jobs that are going to turn the economy around.

That is why we say bring back secondary and manufacturing industries. You have to do certain things to bring them back. They are not going to happen by a process that takes place by itself.

Mr. McFadden: I am wondering about the words "job-intensive" and exactly what we are talking about. As the manufacturing industries develop throughout the western world, and it does not matter what country they go into, they are not worried about being job-intensive. Because we are in competition with countries that have low incomes, we are having to be more technologically intensive. The job-intensive industries are the service sector, the financial institutions, hospitals and educational institutions.

You are not keen on McDonalds, but it is the low end. Wherever it happens to be, it seems to me you are getting the job intensity in the service

industry, because most services are still delivered by people. No matter who runs your manufacturing industries, whether they are state-owned or private, they are all orienting themselves worldwide towards technological innovation to remain competitive.

What I am getting at is that I am not quite clear, but I think you are suggesting you want new, job-intensive, high-paying manufacturing, and I am not sure that is realistic.

Mr. Eleen: We can create industries. For instance, almost nothing is done in manufacturing environmental equipment. There was a little windmill shop in Mississauga that went out of business because the Board of Industrial Leadership and Development program did not give it a cent when it was supposed to do so. It was oriented towards helping the energy industry, and it just went out of business. People in the US were buying from that factory.

In solar energy, I knew of two plants in Toronto that went out of business. They were building solar panels. These are some of the things that are job-intensive. They require some skills and they should be nurtured.

Mr. McFadden: In terms of the numbers of jobs you want to create, you can spin off five or 10 jobs in a lot of small companies. Of course, those can eventually build up to big ones but, for instance, the new General Motors plant is not what you would traditionally describe as job-intensive. The reason it is being built and the reason the jobs are, at least, going to be preserved is that it is a competitive industry. It is there and able to compete, hopefully, with competition from the US and countries around the world, whether it is Malaysia, Mexico or anywhere else.

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I question whether your new job-intensive industry is not going to be the service sector, fundamentally, in terms of the large number of jobs given that the George Radwanski study indicated 85 per cent of new jobs appear to be in service-related industries. I know there is a grey area between manufacturing and service, and we have been through this in the past couple of weeks, but I am just questioning this. I am not sure we will head towards full employment with new job-intensive manufacturing industries because I am not sure they will exist in the modern world. It is a conundrum we all face.

Mr. Eleen: I think we have to get some of these people we are churning out of universities and so on, whom we talked about earlier, around the table, get them and the politicians to put their thinking caps on and think of some of these jobs that can be created. I was at city hall the other day on this Sunday-closing issue. All they were talking about was the tourist industry. My God, if we have to depend on the tourist industry to keep this province going, we are in real trouble.

Mr. McFadden: I hear that is one of the biggest employers.

Mr. Eleen: We have to sit down and devise ideas that would promote--we mentioned only two or three here--job-intensive industries, but concentrating also on content of industry, where people could make a living at it. In a lot of the service industry, they cannot make a living.

Mr. O'Flynn: There is a huge social problem that needs to be attacked, the provision of housing that people can afford. I am not talking any more about low-income people. You must be aware of the terrible job people

who are earning decent wages have trying to find affordable accommodation. If the committee and the politicians were to do only one thing, tackle the issue of trying to provide low-income housing--I should rephrase that; it is no longer appropriate--houses that most people would be able to afford, then they would be doing a tremendous job for the community and creating innumerable jobs.

Mr. McFadden: The home builders were in this morning with a number of recommendations on how that might be achieved, one of which, you will be interested to know, is to attract into southern Ontario people from across Canada to work in the construction field. They are suggesting right now there is a shortage in the construction industry and we should be attracting people, with incentives into southern Ontario to work here.

Mr. Surich: The shortages go beyond labour; the shortages are in the actual materials. There is a shortage of dry-wall, which is bizarre to think of.

Mr. O'Flynn: The shortages also arise from the lack of an apprenticeship and training program that is broad enough to deal with situations, so that people can be fed into it in times like this.

Mr. McFadden: I know we are running short. I have a few more, but I will just ask one.

The Acting Chairman: I thought you were going to lead into the question this morning from the urban housing.

Mr. McFadden: The Ontario Home Builders' Association?

The Acting Chairman: Yes. They were talking about how they could not get sufficient skilled tradesmen, even at $18 to $20 an hour. They cannot find anybody.

Mr. O'Flynn: They cannot find them. They are not there. They do not exist. They have not been trained.

Mr. Surich: They certainly do not exist in Ontario.

Mr. McFadden: They may exist in other parts of Canada, but few of them want to move to Toronto.

Mr. O'Flynn: How could you look forward to move to Toronto?

Mr. McFadden: Exactly.

Mr. Surich: That is the problem. Even earning $20 an hour, how do you get a bricklayer to move here from Alberta, where there are surpluses, when they have to live here? I do not know if they can commute back and forth to Alberta.

Mr. McFadden: Alberta had that situation a few years ago.

Mr. Surich: Of course. I do not think you ever make a plan to deal with that kind of problem because I do not think that is going to persist. You do not double the number of skilled tradesmen in the construction trades because we have a problem today. Two years from now we are going to be back with a different problem, vast numbers of skilled tradesmen in the construction trades without work.

Mr. McFadden: On research and development, it goes hand in hand with what you said earlier. I think that the area of research and development is essential to the future of the country. We can talk about--

The Acting Chairman: Mr. McFadden, can you speak into the microphone.

Mr. Taylor: We want to get your words indelibly inscribed for posterity because we are the only members here, the Conservative caucus.

Mr. McFadden: The area of research and development is a major issue, one that concerns me. You have suggested here that there be some serious public sector activity in concert with post-secondary institutions and some Canadian-owned firms. I would like you to explain what you mean by "some" Canadian-owned. Are you saying that not all should be able to participate or are you saying that only some would be interested? What was the orientation of "some Canadian-controlled"? Second, are you saying that companies from abroad could not usefully contribute towards research and development in this country?

Mr. Surich: Let me deal with the general question. Obviously, anybody who does some of that work here potentially makes a useful contribution although very often--I know of specific instances where the research is done here and when something is discovered, it is patented by the parent firm in New York which then sells it back at high cost to the Canadian branch. That is obviously a problem.

The reality is that the number of foreign firms that do research and development here is very limited. The number of Canadian firms that do anything is limited. The university system is short of money. You are beginning once again the process of losing very skilled scientists, for example, from our universities going to the United States, not so much because the salaries are better but because the research budgets are phenomenal in comparison to what is available here, by a factor of 10 to one often or 20 to one in some cases.

The research and development problem in a sense is similar to the skills-training problem. If you leave it to simple market forces, you are not going to get research and development here because the logic of the market is such that there is not much point in doing a great deal of research and development here if all you are doing is serving the American market with products designed for and by the American market. There is a kind of circular logic, in a sense, that takes over that says you do not bother.

Where it does occur, in fact Canadian firms have done quite well. Canadian universities and other institutions have done quite well. The problem is nowhere near enough of that goes on and I do not think that will ever happen unless you take a very interventionist role for government, particularly in the form of funding, which has to be funding that is direct rather than the carrot approach. As I recall, the last time the carrot was tried, somewhere in the neighbourhood $1 billion worth of public funds was simply stolen. I am not sure that is--

Mr. Taylor: Was that all?

Mr. Surich: A least $1 billion was simply stolen. I am not sure what happened to the other $2.5 billion.

Mr. Taylor: It might incidentally have gone to research.

Mr. Surich: Do you think any of the $2.5 billion actually went into

research? I do not know. All I know is that if you use that kind of approach, what you do is encourage some large law firms downtown to figure out ways of ripping off the system, and they do, enormously effectively. Clearly, that is not the approach. In a sense, it speaks to the point I was making earlier about skills training. Holding up the financial carrot does not create research. Holding up the financial carrot to a university might because you have some public control over the expenditure and the funds. Holding it up to private business does not do the job. Our incentives, in terms of tax expenditures, are quite generous compared to most countries in the world and yet very little is done. That is not the problem.

The problem is creating the climate in which that kind of work is part of doing business and using public funding imaginatively, and that means very broadly so that you encourage many ideas to flourish. Otherwise, you get no research that is worth it. Otherwise, it is not going to happen. It needs a longer-term commitment which, again, is not there. You get a research and development tax credit scheme because somebody had a good idea. I think they said it would cost $100 million.

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Mr. McFadden: I think what you need for Canadian research and development to launch itself and actually to create jobs is a tremendous sense of entrepreneurship, not just in business but also in the universities. Professors, the whole works, have to feel that they can see some bottom line for the developer, that eventually this is going to come into play and he may benefit financially. For the industry, it has to be able to see that somewhere along the line all this money will create a product it can produce and eventually be able to sell somewhere. I know I should not mention the term "entrepreneurship," but that is one of the things that seems to be lacking.

The Acting Chairman: Is there a question in your comments?

Mr. McFadden: No.

Mr. Eleen: The point he is trying to make is that there should be more commitment from the government to bring that 0.58 per cent we spend on research and development--it might have changed since the last time I looked at the figure. We are somewhere at the bottom of all the industrialized nations on the amount we spend for research and development.

Mr. O'Flynn: Would it not have something to do with the extent to which industry is owned by other nationals?

Mr. McFadden: I do not think that is the cause totally. I think it is a lot deeper.

Mr. O'Flynn: It may have something to do with the entrepreneurial environment that you speak of.

Mr. McFadden: That is some of it, but I do not think that is the complete answer. I think we have developed, for a lot of reasons, a derivative economy here. We started off as a British colony; we were part of the empire. We became part of essentially the American economic empire. As a country, we have never been forced to tough it out and fight it out in a competitive way. We have not inculcated throughout the business sector or other sectors within this economy, Canadian-owned or elsewhere, the kind of belief that as a team, whether it is labour, management, the research arm of the universities, we all have to work together to do this.

Sweden, Japan and other countries are put up as examples. They have a strong sense that, as nations, they are going ahead, that they have to work together, that they are not derivative economies but are leading. Some industries in Canada have started to head that way. I do not think you are going to achieve jobs unless you have a sense of entrepreneurship created, acutally to want to take those innovations and make them into something.

The fact that a university invents something does not mean anything, because all that will happen is a professor might develop and patent it here but some person in France or the United States might actually produce it.

Mr. Surich: That is the normal process.

Mr. McFadden: We need in this country management capabilities that will do that, and I think your missing link is--you are right, up to where you end your period, but from there all you may well produce out of all this is a bunch of patentable items that will be publicly funded, that will be out there and that anybody in the world will pick up and use. The entrepreneurs of the world will pick it up, no doubt; if you produce anything useful, they will pick it up.

Mr. Eleen: It will give encouragement to our scientists to have research and development done here.

Mr. McFadden: Precisely, and unless they have the entrepreneurial environment here to allow that to happen, they will go to the United States. As soon as they get anywhere up here with all this public funding, unless we have built in this country the ability to produce it, the kind of people who will get it to market, they will either let their patents go and pick up the royalites or they will head off and we we will be a great funnel for the economies of the world. That is the logical problem we are facing. Nobody has an easy answer to this and our worry is that over the next 20 years, if we do not resolve it, everything will backfire.

Can I ask one final question?

The Acting Chairman: Final.

Mr. McFadden: You are the last witnesses before we start writing our report. I have to ask you this question because I have asked it of half the witnesses. I am trying to determine something.

The Acting Chairman: It is going to be short.

Mr. Taylor: We have to hear it or our report will come to naught.

Mr. McFadden: Otherwise, this whole thing collapses. Two things keep coming up. A large group of witnesses tell us to keep cutting the deficit or eliminate it; a lot of witnesses have suggested that. You have not mentioned the deficit. You have, however, set out a large number of proposals that require some public expression.

The Acting Chairman: Question.

Mr. McFadden: Could you provide, between now and Monday, some idea of the cost of the various programs you are recommending in terms of the province? What would it cost for us to act on all or part of the proposals you have made here? Obviously, you have researched this. Some witnesses have

provided this information; some have not been able to research it yet. I am curious to know if you have managed to attach some cost figures so that we have a better idea what it is that we would be recommending?

Mr. O'Flynn: Most of the proposals are taken from proposals we have made to other committees. We have made proposals on equal pay for work of equal value, on pension reform, on development of the north, on the elimination or the creation of jobs through control of overtime. At the present time, we do not have a summary of the costs involved in all of those proposals.

Mr. Surich: In a sense, I think the research and development tax credit points to the difficulty in predicting costs. The cost of that was supposed to be $100 million and it ended costing $3.5 billion. I do not think we would be that far out if we tried to play that particular game. The reality is that I am not convinced that the government of Ontario faces something that one would call a significant deficit. When the budget comes, we will see, but my guess is in fact it does not face something that we would call a significant deficit.

I think there is some capacity for increasing public expenditures in socially useful areas. There is a much greater capacity to spend some sums of money in the less well developed areas of the province. I think there is also a great deal of capacity to put in place some longer-term kinds of stabilization funds. I am not sure what you would call it, but for example, you could establish in the province a municipal infrastructure stabilization fund that, in a sense, accumulates funds over a period of time, has projects are in place and if the economy starts to take a dip pulls some of those out of a drawer, in a sense, and put them into effect, creating those kinds of very rapid jobs.

That does not require a massive amount of commitment today, but it requires some longer-term thinking and some development of projects that are not essential today, perhaps, but that could be tremendously useful three years down the road, or for that matter two years down the road when all that excess automobile production capacity comes on stream, because you are going to lose jobs in southern Ontario as all those Japanese plants begin to produce automobiles, or more correctly, begin to assemble Japanese automobiles.

The Acting Chairman: Thank you, Mr. O'Flynn and executive members of the Ontario Federation of Labour for your brief this afternoon and for the discussions that followed. I am sure committee members will take the matters into consideration as we prepare our report to the Treasury.

The committee adjourned at 4:27 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

LOAN AND TRUST CORPORATIONS ACT

TUESDAY, MARCH 31, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Offer, S. (Mississauga North L) for Mr. Ferraro

Clerk: Carrozza, F.

Staff:
Evans, C. A., Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Financial Institutions:
Offer, S., Parliamentary Assistant to the Minister of Consumer and Commercial Relations (Mississauga North L)
Parrish, C., Director, Policy, Planning and Legal Services Section
Davies, B., Deputy Minister
Wilbee, J. J., Superintendent of Deposit Institutions

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, March 31, 1987

The committee met at 2:06 p.m. in committee room 1.

LOAN AND TRUST CORPORATIONS ACT

Consideration of Bill 116, An Act to revise the Loan and Trust Corporations Act.

Mr. Chairman: Let us get started.

This is a historic moment right now. For those who are just visiting us, this committee has been going nonstop all morning until 1:45 p.m. because of our historic role generally in the parliamentary system, creating the first publicly created budget.

We have another historic task right now, and it is a very pleasant one. We are dealing with what purports to be the longest bill ever considered by the Ontario Legislature and the first commercial bill to be considered by the Ontario Legislature that has been printed and is being dealt with in a bilingual manner.

Mr. Ashe: That is what makes it the longest bill.

Mr. Chairman: That may or may not be a factor.

In any event, we are very pleased to have with us this afternoon Mr. Offer, the parliamentary assistant to the Minister of Financial Institutions (Mr. Kwinter), and officials from the ministry. Perhaps Mr. Offer could take over and introduce his fellow panellists.

Mr. Offer: If I may, I would like to make some opening comments.

As you are no doubt aware and as the chairman has indicated, I am here on behalf of the Minister of Financial Institutions, our colleague the Honourable Monte Kwinter. Mr. Kwinter is currently meeting in Europe with government and business leaders to discuss recent initiatives in Ontario's insurance and security industry. Mr. Kwinter has asked me to convey his regret at not being able to attend today's meeting, and I hasten to add that his absence in no way reflects on his belief in the importance of this bill. I know he is very pleased that after so much work, we have now reached the stage of clause-by-clause review of Bill 116, the Loan and Trust Corporations Act, 1986, Loi portant révision de la Loi sur les compagnies de prêt et de fiducie.

As Mr. Kwinter pointed out when he spoke to you last February 5, many of you here today were members in this Legislature when Ontario experienced the failure of three trust companies. The legislation that governs trust and loan corporations is virtually the same legislation we had then. With Bill 116, we have the opportunity to bring to Ontario strong regulatory provisions while at the same time modernizing corporate governance and enhancing investment flexibility. It seems to me we should take this opportunity to ensure Bill 116 becomes law in this province.

At your February 5 meeting, this committee considered how best to deal with such a long and complex bill. The committee suggested that the Ministry

of Financial Institutions share its new motions with those concerned, consult with them and reprint Bill 116 to include the new motions.

I am pleased to report that following your suggestion, the ministry has consulted with the Canadian Bar Association, Ontario branch, the Trust Companies Association of Canada and, on request, several individual trust companies. There has also been consultation with the Canadian Institute of Chartered Accountants.

Ministry officials engaged in comprehensive discussions of possible revisions of the bill. There have been many meetings in which the issues were discussed, and in fact, many issues have been ironed out. As a result, the Ministry of Financial Institutions has now reprinted the bill with government motions and distributed it to all interested parties. I can assure you the ministry has made a real effort to inform all interested parties of the issues at hand.

This recent activity by the ministry continues the very lengthy consultation process which was outlined by Mr. Kwinter at your February 5 meeting. I venture to say that there has been more consultation used in the development of Bill 116 than any other to be introduced in the Legislature. In the next few days, this committee will hear further from the industry and other interested groups.

I believe, as does Mr. Kwinter, that the bill now before you provides a good balance between, on one hand, depositor protection and, on the other, legitimate business aspirations. Bill 116 is indeed a complex bill, and fortunately, we have officials of the Ministry of Financial Institutions with us today to make a presentation which will give us a clearer perspective. I understand this presentation will be partly oral and partly slides.

To my left is Bryan Davies, Deputy Minister of Financial Institutions; to my immediate right is Jim Wilbee, the superintendent of deposit institutions; and to my extreme right is Colleen Parrish, the director of policy and planning branch. Ms. Parrish in the main is going to be making the presentation, which we expect will take approximately 40 minutes. At the end of the presentation, we would be available for any questions or clarification.

With respect to the slides and presentations, there may very well be questions which arise as they proceed, and we think some of those questions may be answered by the slides as they proceed to the end. If the chairman and committee members do not mind, we will make the presentation in whole and then be available for questions at the end.

Mr. Chairman: The message has been received. Thank you. Ms. Parrish, carry on.

Ms. Parrish: My colleague Eric Endicott will be handling the slides. I thought it would be helpful if I did a brief outline of the format of the presentation. First, we will speak very briefly about the consultation that has led to Bill 116. Second, there will be an outline of the basic policy principles in the bill.

Interjection: Excuse me. I am going to adjust the lights.

Mr. Chairman: Incidentally, this lady to the left of Mr. Cooke is Catharine Evans, who is going to be our researcher for the purposes of Bill 116.

Ms. Parrish: I am not sure whether this will win an Oscar.

Mr. McFadden: Is this for a Canadian production?

Mr. Ramsay: George thinks it is the best foreign film.

Mr. Ashe: Best foreign film--with subtitles.

Ms. Parrish: As I said, I will speak very briefly to the consultation leading to Bill 116, which has been quite extensive. Second, I would like to outline the basic policy principles behind the bill. Then I would like to identify those issues that are most likely to arise in the course of the committee's deliberation and in the course of public hearings. Following that, we will address proposed motions to the bill, highlighting the key ones. Those are the motions that have been consolidated into the reprinted version. Last, we can proceed with an outline of the bill by parts if the committee desires that degree of detail or it may be desirable at that stage to pause for questions and then proceed to an in-part canvass of the bill, depending on the wishes of the committee.

As was already mentioned, this is the face of Bill 116 in one of its earlier reincarnations. It has since been reintroduced as a bilingual bill and is the first major corporate commercial bill in Ontario to be bilingual. It was also the first major corporate commercial bill to be drafted in nonsexist language. It was one of the bills that formed the basis for the government's current policy on nonsexist drafting language, but of course the real goal of the bill is to regulate loan and trust corporations.

In terms of consultation on policy issues, there was a white paper on this bill in November 1983. That was followed by three months of committee hearings before the standing committee on administration of justice. That committee released a report in May 1984. If we can move on to the next slide, I would like to speak very briefly to what the standing committee emphasized in its report, because to a large degree, Bill 116 is really based on what the standing committee's directions were.

The standing committee emphasized there was a need for new and clear legislation because the current legislation was very old and antiquated. For instance, many of the corporate governance provisions dated back to the Friendly Societies Act of 1878; other provisions of the act dated back to 1912 and 1948. There was a real sense of a need for modernized legislation.

The standing committee noted that in the white paper there was substantial emphasis on regulatory discretion, and the standing committee felt that the white paper, responding as it was to the failure of three trust companies, had gone too far in terms of regulatory discretion. The standing committee's report emphasized that there should be less regulatory discretion and that there should be more specific criteria laid down in statute and regulations; that was an important aspect of the standing committee's report.

As well, the standing committee felt that the corollary of less discretionary regulation by regulators was more emphasis on management and professional responsibilities in the companies themselves, for the auditors, the lawyers, the officers and directors of the corporation. Again, they directed that the bill that would come out of their report should try to move the balance more over to giving responsibility for the corporate affairs to the company as well as to having a strong regulatory regime.

The standing committee emphasized very strongly that there should be consistency in the application of law; that is, all corporations doing loan and trust business in Ontario should have the same rules apply to them. This rule is often called, in shorthand, the "equals approach," but in essence it is saying that all corporations taking deposits as loan or trust corporations in Ontario should be under the same rules in so far as they relate to the business of loan and trust corporations. That this should be done was also a very strong element of the standing committee's report.

The standing committee was also very strong in terms of increased public disclosure, that there should be more disclosure to the public about the affairs of trust companies, many of which were closely held companies.

There was a minority New Democratic Party report indicating a concern over the ownership of trust companies which then, as now, were largely closely held.

Let us return to the previous slide which goes back to the policy formulation process. After the standing committee released its report, there were seven staff discussion papers on various topics that were circulated during the summer of 1984. These had quite wide circulation and were circulated to all governments in Canada and dealt in greater detail with certain issues, such as the responsibility of directors, conflict of interest, enforcement and so on.

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The Dupré task force reported on an interim basis in January 1985 and finally in December 1985. In the final report, it commented extensively on Ontario's proposed changes in the loan and trust area.

The next slide deals with the legislative phase of the consultation process leading up to Bill 116. There was a draft act released for consultation in June 1985. This June 1985 consultation draft has substantial similarities to Bill 116, but there were a great many changes made during the course of consultation.

The Dupré task force in December 1985 commented in detail on the consultation draft and indicated at that time that it strongly supported the bill becoming an act of the Legislature and felt that there was substantial support for the bill with certain changes. Almost all of the Dupré task force recommendations for change to the consultation draft were adopted.

Bill 87, the predecessor to Bill 116, was introduced in December 1985. It was withdrawn in July 1986 and substituted with Bill 116. The bilingual bill came in in October and second reading was in November.

The bill has essentially six basic policy principles, coming essentially from the white paper and as modified by the standing committee's report.

The first policy principle is depositor protection and public confidence. Essentially, this bill attempts to balance the need for depositor protection with the desire for enhanced business opportunities for loan and trust corporations, but where there is doubt, this bill tends to resolve it on the side of depositor protection. It is a strong depositor protection bill and it is based on the belief that public confidence in financial institutions can be a somewhat fragile thing, that it is important there be a perception that there are not significant failures within the system and that the paramount

responsibility is to protect the funds of depositors. So the bill balances the desire for more business opportunity but in the end it is a strong depositor protection kind of bill, and where there has been that kind of debate, it has tended to resolve the issues on the side of depositor protection.

The second policy principle behind this bill is what is referred to as the equals approach, which the standing committee termed as consistency in application of law. The equals approach in essence says that where a company wishes to register to do business in Ontario, whether it is incorporated in Ontario or in another jurisdiction in Canada, there are certain basic rules about the conduct of a loan or trust business which it must obey equally with Ontario incorporated companies, so that depositors who are placing their money in institutions in Ontario have equal protection and are not placed in a position where they are more or less vulnerable depending on the jurisdiction of incorporation.

I stress that the equals approach does not mean that every single aspect of the bill applies to every corporation, because it does not. There are large parts of the bill which apply only to Ontario companies: for instance, large parts of the corporate governance provisions. We do not dictate to other provinces how they would tell their corporations to conduct their shareholders' meetings, for instance, or how we would incorporate a company or how we would amend its charter or whatever. Those are matters which are only matters of corporate governance for individual jurisdictions. But on the rules that apply to the business of loan and trust corporations, which is taking money and reinvesting it, the rules essentially are the same for all corporations irrespective of where they were incorporated.

The next basic principle is the responsibilities of directors, officers and auditors, which are substantially increased in this bill. Interestingly, when the consultation draft was first put out, many of the proposals related to directors were considered to be quite radical. For instance, there was a new standard and duty of care for directors and there were requirements of minimum board size, minimum outside directors and so on. At that time, that was considered to be very strong medicine. Since then, most other reports on financial institutions, including Mr. Justice Estey's report on the failure of the two banks, have adopted many of the same principles and have indicated that they, too, see the importance of raising the standard and duty of care for officers and directors and requiring minimum outside director components on boards.

Over time, the responsibilities imposed by Bill 116, which were at one time considered to be quite novel, have more or less been adopted by many other commentators and have found a large degree of acceptance as innovations that would help ensure that trust companies were being run in the interests of depositors as well as in the interests of shareholders of the corporations.

In addition, the bill introduces greater responsibilities, especially reporting responsibilities, for auditors. Again, many of the these reporting responsibilities have also formed the basis of other jurisdictions' laws or proposed laws in respect to auditor responsibilities.

The next important aspect of the bill is control over conflict of interest. The current bill has an entire part on conflict of interest and on control on self-dealing. Basically, the bill bans self-dealing between those people who are called restricted parties of the corporation and the corporation itself. There are specific exemptions of the kind that would be expected, for example, loans to employees for their homes and so on, but there

is quite a strict ban on self-dealing and relatively few exemptions to the ban on self-dealing.

In addition, there are a number of other mechanisms that are intended to reduce conflict of interest, such as requirements that there should be a certain number of outside directors and that the outside directors should have substantial input into certain kinds of decisions made that could involve conflict of interest. Where a transaction is permitted that involves conflict of interest, disclosure would be required and the input of outside directors.

This is only in circumstances where there is not an absolute ban on self-dealing, and in many circumstances there is a ban. In other situations, the transaction is permitted but only subject to certain kinds of approvals of the board of directors.

I should note that one of the points that does not appear in the policy principles but is very relevant to the aspects of the bill, is that Bill 116 does not introduce domestic ownership restrictions. There is no restriction on who can own a loan or trust corporation based on, for instance, whether they own some other financial institution or whether they own some other commercial entity. Rather, there is a multifaceted approach--such as the ban on self-dealing and the strict rules on conflict of interest, the greater responsibility on the directors, officers and auditors and the stronger regulatory approach and greater public disclosure--which is intended to ensure that the interests of depositors are paramount.

It was felt at the time this policy was developed that these mechanisms were more realistic and more practical than ownership restrictions in that no matter how you structured a company, there would always be an insider; there would always be somebody within the company who had the capacity to influence the company in a way which might not be in the interests of the depositors. So the control over conflict of interest, the ban on self-dealing is an important component of this protection of the depositors' interests.

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However, the bill does introduce enhanced investment opportunity and wider powers for loan and trust corporations. In essence, the powers afforded loan and trust corporations have changed very little over decades. It was felt that in many ways the rules and opportunities given to trust companies and loan corporations were very limited and had very little practical reality. For instance, current legislation had elaborate systems of five-year earnings records and so on that really do not fill any purpose in modern investment. So the bill moves essentially to a diversified, prudent portfolio approach with a number of baskets in which corporations can make certain kinds of investments, a substantially greater latitude than the corporations have now.

Could we see the slide that shows the investment basket?

This is probably the fastest way to go through the investment section of the act. In essence, the act says that corporations must maintain a minimum of 50 per cent of their assets--which is essentially the deposits plus the shareholders' equity--in certain kinds of safe investments like first mortgages and government bonds. They have flexibility with the remaining 50 per cent. They are allowed to have a maximum of 20 per cent in total in commercial lending and commercial leasing, providing they have regulatory approval and $15 million in capital. They are allowed to have a maximum of 20 per cent in consumer lending, providing they have regulatory approval. They

are permitted to have 25 per cent of their portfolio in corporate securities, 10 per cent in real estate and five per cent in the basket which is a miscellaneous for anything that does not fit in anywhere else.

In addition to that, there are specific disbursification rules that limit a corporation to making no more than one per cent of its assets in a loan to any one person or group of persons, limit a corporation to 10 per cent of the shares of any individual company and also limit it in terms of having only one per cent of its assets in any parcel of real etate.

Going back to the earlier slide, the last policy principle of the bill is stronger regulation and greater public disclosure. Although the ministry followed the direction of the standing committee that there be less discretion, the bill does frankly still have substantial regulatory discretion and is still a very strong regulatory bill, consistent with the kind of business that is being regulated.

There is much greater public disclosure required, including the maintenance of a public file that members of the public can see, and a requirement that all companies, even if they are not publicly traded, should make their shareholders' annual statement available to members of the public on request. This is not the normal corporate practice with privately held companies.

In the next slide, I would like to canvass very briefly what our assessment is of the prominent issues that are likely to arise. Of course, there are issues that may arise in addition to these, but it is our assessment that the issues most likely to arise in the course of deliberation on this bill are: the equals approach, the question of ownership restrictions domestically and also the issue of foreign ownership, the issues related to self-dealing, who are the restricted parties or who should be the restricted parties, what the appropriate exemptions are from the ban on self-dealing, bearing in mind that certain exemptions are practical and desirable, and the control over estates, trusts and agencies transactions in trust companies.

The next issue that may come up is the degree of director responsibility, the degree to which these new requirements of directors may be onerous or may require more than directors can bear or make it more difficult to recruit directors.

The next issue is the question of auditor reporting, what it is that auditors should be taking responsibility for, what they should be reporting and what perhaps goes beyond what should be reasonably expected of them.

Next is the issue of regulatory discretion. This is an interesting issue because it is likely you will hear points on both sides, that there is too much regulatory discretion in this bill, and similarly that there is too little. In some areas, some commenters may wish to have more regulatory discretion because this will afford greater flexibility. On the other hand, there are those who would wish to have less discretion and more specificity so that everyone knows what the rules of the game are.

In addition, there may be some areas of the bill where the question will arise as to who should exercise certain regulatory discretion: should it be the superintendent of deposit institutions, should it be his director, should it be the Lieutenant Governor in Council? All these individuals have regulatory discretion in this bill and there are some issues as to which level is the appropriate approval level.

Last, there is the issue of investment latitude. This bill does substantially increase the investment latitude of loan and trust corporations, but, not surprisingly, in a number of areas commenters would like more latitude. Many of these individuals or companies are looking not just to the amount of latitude they have at this time, but maybe the amount of latitude they may need in five years or 10 years in a very fast-changing environment.

Next, I would like to speak briefly to the motions to Bill 116. There are 130 proposed government motions incorporated in the reprinted bill. Many of them are of a clarification nature. There was extensive consultation on these with the Trust Companies Association and the Ontario branch of the Canadian Bar Association.

I know there will be some additional government motions coming forward. They relate almost exlcusively to clarifying certain aspects of the share transfer approvals. This bill requires that share transfers of over 10 per cent be approved by the superintendent. However, there are a number of technical motions that will have to be introduced, because there is some conflict in the bill now as to the calculation as to whether or not a holding company upstream owns 10 per cent of the shares. It is essentially a technical problem, but there will be further motions proposed related to correcting that technical problem.

As well, I would indicate that at this time, the minister has indicated an intention to vote against section 221. Section 221 is a section that was put in the bill before we had the benefit of the report of Mr. Justice Estey. It is essentially an exemption for "regional" trust companies. I really raise this issue at this point more to alert the committee of current intentions in relation to section 221. Since section 221 was drafted and placed in the bill, we have had the report of Mr. Justice Estey, who had a number of things to say about regional companies.

Mr. Foulds: Would it not be simpler for the minister to withdraw it?

Ms. Parrish: I understand that, technically, that cannot be done. It has to be voted against because it is a section that stands on its own.

Mr. Foulds: It is not an amendment.

Ms. Parrish: It is not an amendment. That is why I am simply signalling that it is there, because we have no way of showing you by our printed motions that this is currently the intention.

In terms of the key motions, I have tried to summarize what I think the key motions are in the bill. There are some changes in the definition of the restricted parties. The ban on self-dealing is between the corporation and the restricted parties, so it is very important to be very clear as to who are the restricted parties of the corporation. There is a character and fitness requirement for owners, which is introduced in section 7 but also occurs in later sections that deal with registration and amalgamation. Essentially what this says is that an owner of a corporation is required to demonstrate the fitness of his or her character, as well as to demonstrate that he or she has sufficient money to own a trust company. That test is adopted three or four times throughout the act, so it takes three or four motions actually to accomplish that.

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The way the act works is that on registration and incorporation, the proposed corporation must demonstrate the character and fitness of the directors, officers and management. They must also demonstrate their competence and ability to run the corporation. The owners must only demonstrate character and fitness; they do not have to demonstrate competence.

Mr. Foulds: Will that be defined by regulation or is it defined in the definition section of the bill?

Ms. Parrish: It is not defined. It is a matter of regulatory discretion as to whether the corporation can demonstrate there is fitness. Again, this is an area of regulatory discretion.

There is a deletion in section 7 of a local benefit test. At one time the act said very specifically that you had to demonstrate a local benefit to incorporate a company. We now say there is just a general benefit test. You have to generally demonstrate that it would be a benefit to have a new loan or trust corporation rather than have it based on the locality of the corporation.

There is a change in that there is now a deemed registration for any existing companies, so if you are an existing registered company, under the new act, you would simply be deemed to be registered under the new act.

There is a change related to foreign ownership which mirrors almost exactly the federal approach to foreign ownership, which has been in place since the 1960s. Essentially what this change does is allow a new foreign-owned company to come into Ontario and be incorporated and registered. It does not permit the sale of an existing Canadian-owned corporation beyond the so-called 10 and 25 per cent rule, which is 10 per cent in any one owner and 25 per cent in total. This rule, except for drafting differences, is the rule in the current federal legislation, and Mr. Hockin in his blue paper indicated that it was the current federal intention to maintain that rule, so these motions adopt that rule.

There is removal of the requirement that the chairman of the board of directors cannot be the chief executive officer of the corporation. There are some changes in the auditor independence rules. The auditor independence rules went quite far at one time by disqualifying an auditor. Even if his or her spouse worked for an affiliate of a corporation, he or she was disqualified from independence. Now the auditor is considered not to be sufficiently independent to do the audit only if the spouse or child living in the same home as the auditor has an employment, director or ownership relationship to the audited company. As well, of course, the question of auditor independence remains a question of fact, so as a matter of fact, if there is a lack of auditor independence, the auditor would be disqualified, but the rules that were in the earlier bill would have disqualified many auditors who were really totally independent of the corporation.

The act introduces what I call a sort of business contact subcommittee that would have the ability to approve conflict-of-interest approvals where they are permitted. As indicated before, there is a large ban on self-dealing. However, there are some transactions which are permitted, but they are only permitted subject to board approval. It was felt that it was very wise to introduce a mechanism for board approval, so a mechanism has been introduced which would permit a subcommittee of the board of five directors, of whom a majority must be outside directors, to approve these kinds of conflict-of-interest transactions. If there is a transaction that requires board approval, it has to be approved by this subcommittee, which would be

made up of a majority of outside directors. This is a mechanism for ensuring that these kinds of transactions get the appropriate scrutiny and the appropriate input from individuals who are independent of the corporation.

There is also a change in some of the provisions related to estate, trust and agency shares held by a corporation. This bill has a very unusual, novel provision in it related to shares of the corporation held in estate, trust and agency accounts. Trust companies often hold their own shares because those shares are part of estates they administer. The question has often arisen as to what a corporation's responsibility is in terms of selling, voting or refusing an offer for shares in which it has an interest as management. The act does prohibit the purchase of a corporation's shares with estate funds unless the specific document forming the trust authorized the purchase of those shares. This is to avoid a conflict-of-interest situation where the corporation could buy its own shares and then vote those shares. Where the corporation has those shares because the shares have come into the corporation as part of the estate or as part of the trust, it is permitted to hold those shares, but it is only allowed to deal with those shares--selling, voting, refusing an offer--with the approval of the board of directors.

At one time the act also required approval of the full board of directors even for the sale of affiliate shares, but that has been changed by motion to concentrate on where the abuse or the potential abuse really is, which is with the corporation's own shares.

There are a number of changes in the investment provisions. One is to permit the purchase of traded bank shares. The bill previously prevented a loan or trust corporation from buying the shares of banks. The concern was that there could be back-to-back deals in which corporations bought each other's shares in essence to increase their potential borrowing base. This is largely an abuse where the shares are not traded and where there is no public market. It was felt that it was safe to permit the purchase of bank shares provided there was a traded public market as defined under the Securities Act.

A second change made in the investment section would permit the corporation, within its 25 per cent securities basket, to invest in all types of corporate securities and to get away from the rather antiquated language of bonds, debentures, shares, common shares, this and that, which because of the behaviour of markets and rapid change have become somewhat antiquated notions in the sense that it is often very difficult to tell the difference between a bond and a debenture, for instance. Indeed, many debt instruments now have equity aspects to them, so it was felt that it was better to move to a more modern concept of corporate securities.

Investment tests: It was clarified that a corporation should have a fully secured investment when made but that corporations would not be required to maintain full securitization throughout the period of the loan. If they were required to do that, they would have to sell their loans whenever the market was low, so they would be constantly in the position of having to sell when the market was low, which would be undesirable for depositors.

There has been a merging of the commercial lending and leasing basket. Instead of saying that a company can only do 10 per cent leasing and 10 per cent lending, it is allowed to merge that basket so if it wishes to do 12 per cent leasing and eight per cent lending or vice versa, it has that flexibility, because in many ways the only difference between these kinds of business is the kind of corporate instrument or the kind of document that is being used as opposed to an actual real difference in the nature of the

transaction or in the nature of the security.

That completes the first part of the presentation, rather to my surprise within the 40 minutes. I can go through the bill part by part and talk about what is in each part, not clause by clause but in a more broad way. I think I caught myself by surprise when I finished in 40 minutes.

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Mr. Chairman: I think you are right on the 40 minutes--39 minutes.

Ms. Parrish: I will talk for another minute. As I indicated, I can now go through the bill part by part in the 15 parts and give some greater detail as to what is in each part of the bill. I can do that immediately or I can do it later. We can pause for questions now. I am really at your disposal as to how you would like to proceed.

Mr. Chairman: Why do we not entertain any questions we have at this stage? Then perhaps you can go through the sections at that time, if you think it is more appropriate, or perhaps that could even occur later when we actually are starting to look at it clause by clause.

Ms. Parrish: It might be appropriate to do it closer to clause-by-clause as well. I had not thought of that.

Mr. McLean: I would like a little more clarification with regard to "provided regulatory approval is obtained." How many times will this company have to go back and how many different approvals will it have to get, whether you are talking about 20 per cent commercial lending or five per cent or 25 per cent corporate securities?

Ms. Parrish: In general, corporations would apply on registration on probably everything. They do not have to have approval to do 25 per cent corporate securities; they can do that as of right. The only places where they have to have approval are commercial lending and leasing and consumer lending. Normally, on registration, they would simply apply and the superintendent would consider what was appropriate and that would sort of be it, unless they were subject to some sort of disciplinary proceeding in which they were rolled back because they had not continued appropriately.

Mr. McLean: Basically, it is not an ongoing process; once they have the approval, then it is there?

Ms. Parrish: Yes, although the superintendent has the discretion. For instance, with a relatively new corporation, he might feel it would be wiser to start it at a lower level, say 10 per cent or whatever, and see how it was doing for a few years, and then it would have to reapply, but well-established corporations get their approval and they go off.

Mr. Ashe: Would it be possible to get a printed copy of the slides, and most particularly the ones related to the background of the government motions that are going to make the changes? Frankly, if there could be a brief statement of what was behind a proposed change--again, just in a few lines, a short paragraph; you have summarized it verbally, but even less--it would make it much easier, particularly for the critics, for example, to be able to follow through rather than trying to think through once again the 130-odd changes.

Ms. Parrish: Sure.

Mr. Foulds: That is a very useful suggestion.

Mr. Chairman: The briefer the better, as long as it is coherent.

Mr. Ashe: Yes. It does not have to be lengthy. I agree with you.

Mr. Chairman: Any other questions?

Mr. Wilbee: With reference to a previous question in terms of regulatory approvals, there are others. For example, every year there is an annual reregistration that would be required. I think Colleen mentioned that if there were an increase in the borrowing multiple, how many times capital they may accept deposits, that would require regulatory approval. There are, for example, transfers of ownership of shares; more than 10 per cent of the corporation also requires regulatory approval. I did not want you to think those were the only areas that did require approval. Every trust or loan company, once a year, would have to undergo an examination by examination staff; it is not an approval per se but it is certainly a requirement they have to meet.

Mr. McLean: To follow up on your question, I wonder how tough it is going to be to get these approvals when they have been requested to raise their assets, to raise money within their company and provided they do this, then such and such will happen. I know in the past they have raised the capital required and have gone back and still have not got the approval. That is why I am concerned about that area. Is it going to be a burden on the companies to get these approvals?

Mr. Wilbee: I could say it is intended to be somewhat of a burden in any event. Any request for an approval is carefully weighed and all the factors are examined. If you are aware of any instances where arbitrary refusal has been encountered, I hope you will let me know about that, because that should not take place. Refusals will be made if, in our opinion, there are reasons to refuse. There can be a number of reasons for refusing certain requests, but I hope any arbitrary refusals will be brought to our attention, so we may look into them.

Mr. Foulds: What is the actual section that deals with the controls on ownership?

Ms. Parrish: On foreign ownership?

Mr. Foulds: On ownership, period. I notice in the summary we have point 15. Are there a number of different sections of the bill?

Ms. Parrish: The section that deals with shares is part IV and the part that deals with the control of shares, whether it is the control or transfer of shares, domestically or foreign, starts at section 59 and goes over to section 68; that includes the various procedural sections about hearings.

Mr. Foulds: Okay.

Mr. Taylor: I have a few general questions. Is this new legislation fitting in pretty well with the general approach across the country, federally and with other provinces? I am thinking in terms of it meshing in with today's

scope, if I can put it that way. I see the powers of trust companies expanding and greater investment opportunities. I see more policing and controls, maybe better accounting practices, more responsibility on the part of the directors and the board, maybe a lessening of the traditional concept of management of trusteed funds and I guess maybe more of an approximation of trust companies' activities with banking activities.

I am wondering in the global view whether we are getting now more of a unified approach across the country in terms of legislation pertaining to these types of financial institutions. Can you comment on that? Also, while you are at it, was the basket always five per cent?

Ms. Parrish: Seven per cent.

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Mr. Taylor: I thought it was seven. I thought it seemed to have been reduced, and that is why it struck me when you had five on the slide. Maybe you have some comment on that aspect of it.

Ms. Parrish: To proceed with the last question, you are quite right that the current basket now is seven per cent that you have to have regulatory approval for; the maximum is seven.

The new system allows you five per cent as a right but, more important, currently commercial lending and leasing and consumer lending is all done within the seven per cent basket. Now they are permitted up to 20 per cent consumer lending and up to 20 per cent commercial lending and leasing. That is a substantial increase; so that where the basket is now moved from seven to five as of right, a great deal of the business currently done in the basket has now been moved out of the basket.

Mr. Taylor: Yes, I see that.

Mr. McLean: Do you have to have regulatory approval?

Ms. Parrish: To have the basket? No. You have it as of right.

Mr. Taylor: Only in terms of percentage though, up to 20 per cent or whatever it is.

Ms. Parrish: Yes. You are quite right. For commercial lending and leasing, you also have to have $15 million in capital.

Mr. Davies: In terms of your first question, Mr. Taylor, on the trends and directions and whether or not Ontario is in sync or not, I think it is fair to say that Ontario is very much in the lead. We are the only jurisdiction, save for New Brunswick--I stand to be corrected by my colleagues; I think it is the only other jurisdiction that actually has a bill before its Legislature now, and its bill is virtually a carbon copy of Bill 116.

Some other jurisdictions have indicated their trends and plans, but they have not reduced them to actual legislation yet. Generally speaking, I think for all the jurisdictions across the country, the patterns of terms of corporate governance issues and self-dealing concerns are fairly uniform. Where there are possible areas of differentiation, they are in the question of ownership policy--as we know, the federal government has adopted a certain

ownership policy approach that is not embraced in Bill 116--and also in the expansion of powers issue.

Mr. Hockin in the blue paper has proposed what would, on the surface at any rate, appear to be some broader powers for trust companies reaching a certain size limit under the federal scheme. However, those broad outlines that were incorporated in a 40-page blue paper have not yet been translated into actual statutory language; so it is unclear at this stage as to the extent to which there really will be differences in those powers areas. But broadly speaking, the general direction of greater reliance on corporate governance provisions and stronger self-dealing controls, those general trends are universal.

Mr. Taylor: Also, presumably, the policing of the activities.

Mr. Davies: Yes.

Mr. Taylor: Not only on the part of government but maybe--I do not want to get into accounting principles, but I have had some concern in that regard in the past as well.

Mr. Davies: The corporate governance heading includes not only director responsibilities but also external auditor responsibilities, reliance on other professionals.

Mr. Taylor: Do you perceive the other provinces as waiting with some expectation in terms of what we do with this legislation here so that it might provide them with some guidance in terms of what they might do?

Mr. Davies: Certainly, that has been indicated to us at federal-provincial meetings, including one held just last Monday in Ottawa.

Mr. Chairman: Any other questions? I am sure other questions will arise as we hear presentations on the bill. Ms. Parrish, would there be any advantage in your familiarizing us very briefly with a runthrough of the bill now or would it be preferable that we wait until we are at the clause-by-clause stage?

Ms. Parrish: I am really in your hands as to that. This is a very long and complex bill and it has a lot of very important aspects to it. I could walk through it very briefly now, and then if the committee had further direction as to a presentation you might wish to have in greater detail at clause-by-clause, we could arrange for that as well.

Mr. Taylor: I wonder, Mr. Chairman, as you deal with the clauses, you have already pointed out that considerable amendments to the bill are proposed. Presumably this comes about as a result of your ongoing dialogue with the industry and with the bar association, for example. Are there any outstanding areas where you could not come to some accord and which seem to pose a problem or could cause some further concern on the part of yourselves, the committee or the outside body?

Ms. Parrish: The easiest thing might be to reintroduce the slide of what I call the prominent issues. I would say that a great many issues were ironed out during the course of the discussion. It was very useful because the bill as reprinted is a better bill, so it gets rid of a lot of aspects.

Mr. Offer: Mr. Taylor, I do not know whether you are aware that we indicated the bill before you, Bill 116, does contain 130 amendments.

Mr. Taylor: Yes. I see that.

Mr. Offer: Each of those arrows is a notation of the amendment.

Mr. Taylor: I appreciate that.

Mr. Offer: I just wanted to make certain you were aware of that.

Mr. Taylor: Would there not be motions in regard to those?

Mr. Chairman: Mr. Taylor, you have the bill as it came out of second reading, or it will be available to you, and you have this bill, which is what the ministry would, in purity, propose, I suppose, at this moment that we pass, although I think it has indicated it has some other amendments too.

Ms. Parrish: Relatively few additional ones.

Mr. Chairman: This is simply printed up to assist us. We still have to go through the process of dealing with each change.

Mr. Taylor: That is what I thought.

Mr. Chairman: It is so complicated in volume that this has been printed up.

Mr. Taylor: I appreciate that, but what I am concerned about is the proposition that we would now be going into the bill section by section, presumably.

Mr. Chairman: I have simply asked if it would be appropriate. I am asking the committee now, because it has been thrown back to us, is it appropriate for us to ask to have it be done now or shall we wait until we have heard the other presentations?

Mr. Taylor: No. You have anticipated my concern or question. What I was trying to focus in on was a section or sections which may be contentious in nature which may or may not be embodied in a motion to amend or fingered as a proposed amendment where we might be called upon to hear from those in opposition as well as those who propose a change. In other words, there may be members of the industry out there, the bar association and--

Mr. Chairman: We have witnesses lined up for tomorrow and a week from tomorrow. Ms. Parrish, would you run through the areas that we expect they will be addressing?

Mr. Ashe: Do you mind if I ask one other little question first? Maybe I am missing something significant.

Mr. Chairman: I have a list here.

Mr. Ashe: It is not in that sense. It has to do strictly with the printing. Is there any signficance as to why in the first 15 pages, on the definitions, the French is on the English side and the English is on the French side? Is that a further introduction to bilingualism or is that just for confusion?

Ms. Parrish: I wish my colleague from the legislative draftsman's office were here. I guess he is at the pay equity bill. We had the same

question and we thought maybe we had reprinted the bill wrong, but evidently this is the convention so that you can tell when you read the bill bilingually which section deals with which section. That is simply the convention in the definitions section.

Mr. Ashe: It does it only in the first 15 pages.

Ms. Parrish: Yes, because those are the definition sections.

Mr. Ashe: Okay.

Ms. Parrish: Those are all the definition sections.

Mr. Ashe: It is strictly the definitions.

Ms. Parrish: It is just for definitions. That is evidently the convention for bilingual bills; that all definitions switch the English and French so that you can find the definition more easily. I understand that is the explanation.

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Mr. Epp: I guess I share my colleague's concern. I am just wondering whether we could be less conventional and more practical and put it beside where it should be.

Ms. Parrish: Perhaps you might wish to raise this with the legislative draftsmen.

Mr. Epp: The point I want to make is if they are confused in Ottawa, why do we have to transfer that confusion to Ontario?

Mr. Ashe: We have to be consistent.

Ms. Parrish: I understand the reason they do this is that when they do the translation, the definitions are not in alphabetical order any more, because the word might be different in French and English. I understand they do it because it is no longer in alphabetical order. Perhaps I could raise it with my colleagues in the legislative draftsmen's office. I have to say I am not an expert on these kinds of drafting matters.

Mr. Chairman: That is probably a political matter for us to decide in any event, if we want to deal with it.

Do you want to lead us very quickly through these?

Ms. Parrish: The issues that I think are most likely to be canvassed with your committee are, first of all, the equals approach. The equals approach occurs in terms of sections quite substantially throughout the act. It appears in part I, which deals with the application of the act. It appears very substantially in the registration section of the act. The registration section, which is part IV, is really the basis of the equals approach. The equals approach also appears in the business and investment section in part X; in the enforcement section, which is part XII; and in the offences section, part XIII. Those are the focus areas.

Section 39 is often seen as an important part of the equals approach, but I would hasten to say that I think it is just one of the sections that

incorporates the equals approach. There are many other sections that are equally, if not more, important.

We have already referred to where the ownership sections arise in the bill, between section 59 and section 68. They deal with the approval of 10 per cent transfers and also with the issue of foreign ownership of trust companies.

The relevant sections on self-dealing are the definition sections, which includes the definition as to who is a restricted party, and that of course is in the definition section. Otherwise, the conflict-of-interest provisions are dealt with in section 139 to section 151, in part IX of the act. To my knowledge, this is the first bill to have a section that is completely on the issue of conflict of interest. There are also sections related to conflict of interest that arise in section 39, which deals with registration, in the enforcement and civil remedies sections in part XII, and in the offences and penalties sections in part XIII.

The director responsibility sections are in part VI of the bill. In particular, I will try to find the section that deals with the standard and duty of care. Standard of care is in section 107.

Mr. Taylor: Are all these issues not only prominent issues but also currently contentious issues?

Ms. Parrish: I would say the issue of director responsibility has ceased to be a contentious issue in the sense that at one time many of these elements were considered quite novel, but it has become accepted over time.

As for the other issues, it is hard for me to say they are contentious. What I would say is that you are likely to hear representations that say, "We would like you to increase the number of exemptions from the self-dealing ban," for instance, or "We would like you to decrease the number of people who are restricted parties." I think most commenters will say that they feel there should be rules to deal with self-dealing and there should be rules on conflict of interest. It is really a question of how far the rules go.

By and large, you are likely to hear a lot of presentations that are going to be balancing; they are going to say, "Sure, we should have this, but you go too far." By and large, those are the kinds of representations you are going to hear.

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Mr. Taylor: I was thinking, for example, in the standard of care, when you get into the directors, is it the standard of care of a prudent director or the standard of care of a prudent person?

Ms. Parrish: That issue is certainly there. Our standard is that of a prudent director. Many people feel it should be the standard of a prudent person. They feel that the standard of a prudent director is too onerous or not sufficiently well known in law. That is an example of an issue that has been debated.

In terms of auditor reporting, the duties of auditors are outlined in part VII. The act does require auditors to report violations of the act, and in addition, to report violations of other statutes including the Criminal Code and any other laws the contravention of which may affect the corporation's ability to transact business.

Mr. Taylor: The chartered accountants are coming in tomorrow afternoon. Presumably, they will have something to say about this.

Ms. Parrish: I think they will definitely speak about the issue of auditor reporting. Again it is a balancing thing; they feel they should have greater responsibilities and they wish to fulfil those, but in some areas they feel this bill requires more than is reasonable or more than they feel is appropriate. Again it is a balancing. There are relatively few cases where people are totally opposed to what is there. It is more a question of wanting the bill to balance in a slightly different place, if I can put it that way.

The degree of regulatory discretion, as we said, is a philosophical issue that goes throughout the bill. In particular, one area you may hear about is that this bill does allow exemptions from the self-dealing ban to be granted, but only by the Lieutenant Governor in Council. Some of the briefs are likely to say they feel that exercise of discretion should be at the regulatory level and not at cabinet level.

In terms of investment latitude, predictably, you are likely to receive briefs that request greater percentages than those currently struck in the act, particularly in the areas of consumer lending and commercial lending and leasing. In addition, you may hear observations about the definition of leasing and what transactions should be treated as leases and what transactions should be treated a some sort of other corporate vehicle or instrument.

Mr. Chairman: Any other questions?

Mr. McLean: If a father owns 10 per cent of a company, a daughter owns 10 per cent and a son owns 10 per cent and the father sits on the board of directors, is that a conflict?

Ms. Parrish: It is not a conflict that he sits on the board as a member of the board. However, he would be a restricted party of the corporation because he owns 10 per cent of the shares. Also, he would be an inside director as opposed to an outside director, so the corporation would have to find one third outside director.

He is not prevented from sitting on the board, neither is his son or daughter; however, they would be subject to certain restrictions. For instance, being a restricted party of the corporation, the gentleman involved could not sell his land to the corporation; neither could he get a loan for his wholly owned corporation from the corporation, because he would be a restricted party.

As for being a director, he would be an inside director and therefore could not fill up a quorum for outside directors in terms of approving certain kinds of transactions of the corporation; they would have to get an outside director.

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Mr. McLean: What would happen if he also had his brother-in-law and sister-in-law on the board at 10 per cent?

Ms. Parrish: It would depend. If they owned no shares--

Mr. Davies: The question is if they owned 10 per cent, would it be the same?

Ms. Parrish: The same thing. If they own 10 per cent of the shares, they are caught: they are all inside directors; they are all restricted parties of the corporation. They would all be treated as if they were restricted parties of the corporation.

Mr. Taylor: Have you had any problems?

Mr. McLean: No. I have not. There are a few people in my riding who know a little bit about it, though.

Mr. Chairman: I want to say to the ministry and to all the other witnesses who are here today, and I know there are a number of people whose faces are very familiar before this committee and who are extremely interested in this bill, that this committee is also interested in this bill.

We asked to have this bill brought before us, and it is the only bill we have ever asked to have. As a former member of the standing committee on administration of justice, I can say that while initially it may have been that committee that caused this bill to be started, this committee, having gone through the corporate concentration hearings, feels it has a certain interest and expertise in this bill.

I know it may seem from time to time as if we are not giving it the precedence it may seem to need, and in that sense I have to inform you that I cannot guarantee when we will be through clause-by-clause activity. I just want to assure you that we are interested and that if you want to make sure that we do deal with it quickly, each of you who is listening to me should call each of the three House leaders and party whips and urge them to give this committee more time. There are six people--I can name them for you--that you should call.

We do happen to be a new committee and we have to make our way in terms of finding time and we have been restricted in our sitting time.

Mr. Ashe: I think it is only the deputy minister who might have that kind of clout, indirectly.

Mr. Chairman: In any event, we very much appreciate your appearance before us and we will appreciate your continued assistance, I am sure, in enlightening us as to the meaning of the bill. Thank you very much.

Members of the committee, while we are still on the record, I believe we have already indicated on the record the necessity of giving precedence to the budget report, but we have also on the record endorsed a schedule of activity next week which does not include any time to consider the budget report. Looking at what we are actually doing right now, I hope that tomorrow morning we can actually finish dealing with all aspects of that report. Mr. McClellan will then have Thursday and Friday, while the committee is not sitting, to complete his draft; it will be available when we are sitting again next week. The problem is that we do not have any time available next week, and I need a motion to permit the clerk to schedule some time, presumably--

Clerk of the Committee: After hearing the delegations.

Mr. Chairman: It needs to say that? It cannot be more general?

Clerk of the Committee: It would be more helpful.

Mr. Chairman: All right. I need a motion, if someone will so move, to the effect that after we hear the Bill 116 delegations, which we hope will be finished by 2:45 p.m. on Wednesday, April 8, we revert to the committee report.

Mr. Haggerty: I so move.

Mr. Foulds: That means in effect we will have the last part of Wednesday and Thursday morning?

Clerk of the Committee: Correct.

Mr. Foulds: And that is it?

Clerk of the Committee: The NDP have a caucus meeting.

Mr. Chairman: Next week, yes. Or Thursday afternoon--

Interjection: No.

Mr. Chairman: Is Thursday afternoon impossible?

Clerk of the Committee: There is the NDP caucus meeting.

Mr. Chairman: Would it be preferable then to cancel some of the delegations on Bill 116?

Mr. Foulds: And have them later?

Mr. Taylor: Hold on a minute. There is a commitment, and there is an effort that has gone into it. I think we should proceed with our agenda and try to find time.

Mr. Chairman: There is a certain aspect--if you have a limited time, you tend to get it done. I think we are actually doing that in the writing of the report.

Mr. Taylor: Sure. Keep the heat on us.

Mr. Foulds: That is fine with me.

Mr. Haggerty: Okay. All in favour.

Mr. Chairman: Any other discussion?

Mr. Haggerty: Let it fly.

Mr. Epp: Does that mean the committee is not sitting next Wednesday morning?

Mr. Chairman: No. We will be sitting but we will be hearing delegations regarding Bill 116, as we will tomorrow afternoon.

Motion agreed to.

Mr. Chairman: It was suggested this morning that we continue to meet this afternoon until 4:15.

Mr. Foulds: On a point of order, Mr. Chairman: It may be that neither Mr. Morin-Strom nor I can be here tomorrow afternoon. We will try to find a substitute, but if we are not able to find a substitute, the committee should go ahead to hear the delegations we have lined up.

Mr. Taylor: I will be happy to sub for you as usual.

Mr. Foulds: As long as you present my viewpoint.

Mr. Chairman: Thank you for that information. That is helpful.

Mr. Foulds: I just realized that an hour or so ago.

Mr. Chairman: We have another 50 minutes so we can go back to dealing with the budget, and we will go in camera if there is no other business on the record.

The committee continued in camera at 3:27 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

WEDNESDAY, APRIL 1, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.

Staff:
Evans, C. A., Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Financial Institutions:
Offer, S., Parliamentary Assistant to the Minister of Consumer and Commercial Relations (Mississauga North L)
Davies, B., Deputy Minister
Parrish, C., Manager, Policy, Planning and Legal Services Section

From the Canadian Bankers' Association:
MacIntosh, R. M., President
Alton, T. R., President, Bank of Montreal Mortgage Corp.
Cleghorn, J. E., President, Royal Bank of Canada
Clarkson, W. D., Senior Vice-President, Mortgages, Toronto-Dominion Bank
Holmes, R. R., Senior Vice-President, Retail Banking, Bank of Nova Scotia

From the Trust Companies Association of Canada Inc.:
Somerville, W. H., Chairman; Chairman and Chief Executive Officer, National Trust Co. Ltd.
Sayers, J., Director, Research and Administration, and Secretary
Inwood, W. J., Senior Vice-President, General Counsel and Secretary, Royal Trust
O'Malley, B. R., President and Chief Executive Officer, Standard Trustco Ltd.
Hasley, M. A., Executive Vice-President, Guaranty Trust Co. of Canada

From the Institute of Chartered Accountants of Ontario:
Held, P., President; with Dunwoody and Co.
Farley, G., Chairman, Financial Institutions Committee; with Deloitte, Haskins and Sells
Johnston, E., Member, Financial Institutions Committee; with Clarkson, Gordon
Peck, R. D., General Counsel; with Bastedo Cooper

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, April 1, 1987

The committee met at 2:03 p.m. in committee room 1.

LOAN AND TRUST CORPORATIONS ACT
(continued)

Consideration of Bill 116, An Act to revise the Loan and Trust Corporations Act.

Mr. Chairman: Welcome. We will get ready to go this afternoon. Before starting with the presentations from various delegations on Bill 116, I might indicate that the New Democratic Party caucus has asked me to convey apologies that because of scheduling problems it is unable to have committee members here this afternoon. They want me to convey that this does not in any way reflect a lack of interest in and concern about Bill 116. They will be reading the transcript with interest and concern.

Mr. Ashe: They are a good friend of the banking community at the best of times.

Mr. Chairman: This afternoon our first delegation is from the Canadian Bankers' Assocation. I believe there is in front of committee members an indication of the five members who are in front of us now. R. M. MacIntosh, the president of CBA, is sitting right in front of me. J. E. Cleghorn is on his left as we face him, president of the Royal Bank of Canada. W. D. Clarkson, senior vice-president of the Toronto-Dominion Bank, is on Mr. MacIntosh's right as we face him. T. R. Alton, president of the Bank of Montreal Mortgage Corp. is on the far left as we face him. R. R. Holmes, senior vice-president of the Bank of Nova Scotia, is on the far right as we face him.

We have a brief in front of us. Perhaps you can take it away, Mr. MacIntosh.

Mr. MacIntosh: I do not know how much time you are going to devote to this delegation. Is it fair to assume we have about an hour?

Mr. Chairman: We have you scheduled for three quarters of an hour but this chair has been known to allow delegations to go a little longer.

Mr. MacIntosh: I think we can make our point in 45 minutes. Rather than read the whole brief we have put before you and members of the committee, we have given you copies and also copies of our April 1987 brief. Perhaps I may be permitted to make some opening remarks to summarize where we are coming from on this subject.

Mr. Ferraro: On a point of order, Mr. Chairman: Does the delegation want questions at the end or during the presentation?

Mr. MacIntosh: My suggestion is that I speak for five or seven minutes in my opening remarks and then invite comments. We will not try to take a lot of time with an opening statement.

You will want to know why we are here. We are here because we are caught between two regulatory authorities with different approaches to the regulation of financial institutions, banks in our case. We are primarily a federally regulated institution but we are not without some existing, regulatory regime connections with Ontario and other provinces. We are caught between the two.

We do not believe that Ontario citizens in general are greatly concerned to get into jurisdictional and constitutional issues or a fight between the federal and provincial governments. Indeed, it is not our purpose to get into a constitutional question here, but we believe you should be concerned about the impact of Bill 116 on consumers in Ontario, households, families, because we believe it could have a considerably negative effect on borrowing conditions for people acquiring houses or residential space in this province.

To give you an idea of the importance of the banks in this issue, in 1985 chartered banks financed 109,000 housing units in Ontario; That is new and secondary markets. That was 35.6 per cent of the total market in Ontario. I could give you 1986 numbers for the banks, but we cannot give you a percentage of the bank's share of the market because the other institutions do not have 1986 numbers yet. In fact, some of them do not even have 1985 numbers. There are not published numbers, even for 1985, from the trust and loan industry and the credit unions.

I have said to this committee before that I simply do not understand why your regulatory authority, the one you govern, does not require the production of statistics that are up to date. Figures for the trust and loan industry in Ontario are published up to 1984. We got numbers for 1985 by going after them, but they are not generally available. Why do you not do something about it? I have said that before and I repeat it. Why are we the only ones who produce up-to-date data? Perhaps you can ask our friends behind you when they appear before you.

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Mr. Chairman: We are hearing you clearly.

Mr. MacIntosh: Thank you. The point is that if the banks are forced to respond to Bill 116 as it presently stands and without the exemptions the minister talks about--and perhaps even with those exemptions because of the problems they create--it appears to us that the banks will be forced to reduce their lending activity in Ontario because of the difficulty of adhering to both the federal and the provincial regulations, because they differ. The point is they differ. They are not the same and we cannot respond to two masters telling us different things. That is what our situation is. I will come to what the differences are very briefly.

If we cannot respond to both of those and are forced to reduce our activity--we account for over 35 per cent of the business in this province--you can judge for yourselves what is going to happen. The cost of mortgages will go up above what it would otherwise be. The availability of funds will go down. The supply to home builders will go down.

If you think that the other institutions are going to fill the gap in Ontario, that is simply not the case. They would not have the deposit base from which to do so. Another thing is they are not in all the places we are. We have made a list, which we earlier supplied to the ministry, showing that there are some 307 communities in Ontario where there are only banks. That comprises a population of 540,000 people in this province, mostly away from

the big cities of course. I am not talking about Toronto, Hamilton or Guelph. I am talking away from, outside those communities. There are lots of places where there are only banks to service mortgages.

In any event, even if these other institutions were left to try to fill the market, interest rates would go up, period. Demand and supply would be out of balance.

I am saying you have a problem, as members, that has to be addressed. What is the nature of the problem we see? The bank mortgage subsidiaries come under the Bank Act and have always been treated under the Bank Act as an integral part of the bank itself. What I mean by that is they are wholly owned subsidiaries of the bank. Because they are wholly owned subsidiaries, they do not have a separate board of directors. They are really a management unit of the bank. They do not have a separate board at all. There is the board of the bank and the management of the bank, and the mortgage sub is a management unit of the bank, as these gentlemen--two of the gentlemen with me here are the heads of the mortgage units of their banks and that is the way it works.

This means that the issue of self-dealing, which this bill is meant to address, is simply not relevant to a situation where the subsidiary is a wholly owned unit of the parent. There is no self-dealing issue in the banks because the subsidiaries are part of the bank. There is no minority shareholder who could be sidelined by conflict-of-interest or self-dealing reasons. None of those reasons exist. There are no consumer protection reasons that exist.

The ministry has never shown one case or any example where it says there is a problem of consumer protection in the banks' mortgage lending in this province. Why would there be? We already have a regulator and we have a Bank Act three inches thick. We are heavily regulated by him, so why do we need another regulator?

The underlying principle of the complete association of the two--you may well ask, "Then why do you have a subsidiary at all?" There are two reasons. One reason is that the banks have to put up a cash reserve at the central bank and therefore the cost of that cash reserve, which is equivalent to something like three eighths of half a per cent per annum in yield--that is the cost of keeping noninterest reserves at the central bank--means that the banks are uncompetitive within the banks themselves. The banks use the mortgage subsidiaries, where they do not have to put up the cash reserve, although the liabilities of the sub are guaranteed by the parent bank.

The other reason is that a long time ago when the Bank Act was under review, the banks were limited in taking conventional mortgages to 10 per cent of the Canadian-dollar liabilities in the banks, so there was a ceiling on how much the banks could take in.

Those two factors led the banks to create mortgage subsidiaries to compete with the other institutions and most of the mortgage lending in Ontario by the banks is through these subsidiaries.

Now the ministry says, "Go talk to the federal government about changing those rules." That is all very well but we do not know when that will happen. It might be a year from now. The speed at which it is going, it might be two years or 10 years from now. That is the first thing. The second thing is, if the province is really willing to see the whole business folded into the bank, that suggests there is not really a problem in the first place, that there is

not an objection to the bank, as such, in terms of consumer protection. The problem is that we would have an exemption from Bill 116 in Ontario and the government does not seem willing to provide for that.

We are here to say to you that the rules should be rewritten so that the banks have a general exemption from the application of this bill because it is not needed. The effect of it is going to give the banks a whole lot of trouble because of the arm's-length nature of Bill 116 on self-dealings. Whereas the federal government's Bank Act pushes the subsidiary and the bank together, the Ontario concept is to pull them apart and put them at arm's length, so that we have to have outside directors.

Why on earth should a bank have outside directors on wholly owned subsidiaries? What on earth is that adding to the situation? We have the parent board of directors, which is the top body, and the rest of it is management. There is no effect on the consumer. It has absolutely nothing to do with consumer protection, and yet the province is going through this pretence that it is needed to protect the consumer here. What for? The mechanism is already there. Now we have to bring in a bunch of outside directors who have no responsibility and know nothing about it, and it is the banks' liabilities that are at stake.

Also, in more general terms, and the really more serious problem, is that this bill prohibits transactions between the bank and the subsidiary. That is what the self-dealing thing is all about. It prevents transactions between the two. I am talking about both the guarantee of the deposits of the subsidiary by the bank and the sale or purchase of mortgage assets between the bank and the subsidiary.

The ministry has said that those things will be taken care of with specific exemptions. This is all very well, but this government, a succeeding government or two governments down the road can change regulations by order in council at the drop of a hat. We are resting on uneasy ground if we rely on undertakings to produce exemptions that are not there now. We want the exemptions in the bill, not in regulations to follow afterwards that can be changed overnight by anyone.

We have had a letter from the minister saying these things are all covered off, but that is not indeed the case. There is not one word in the draft of Bill 116 that would cover the issue of the banks guaranteeing the liabilities of the subsidiaries, yet we have a letter from the minister saying the matter is not prevented in the bill.

The fact is that the self-dealing provisions of that bill are very broad and there are no exemptions or exceptions unless they are specifically brought in later by the minister. We are saying that does not satisfy us at all. We want a general exemption in the statute for the application to us. We are saying, "If you are interested in the consumer in Ontario, the house buyer, the mortgagee and the developers, then you should share our concern about overlapping jurisdiction which is unnecessary."

Mr. Chairman: Thank you very much. There are points that you have presented very well.

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Mr. Ferraro: Mr. MacIntosh, could you explain to me to a greater degree your comment that if banks cannot respond to the two bits of

legislation--the federal and the one in Ontario that is being considered--the banks will be forced to respond? Exactly what did you mean by that?

Mr. MacIntosh: If there are no transactions permitted between the bank and mortgage subsidiaries, we cannot do a thing in Ontario, except with an exemption provided for by the minister. I would dare say the federal government is going to take the position, as it has on securities legislation, that we do not need an exemption from the minister in Ontario to transact business in Ontario.

Mr. Ferraro: I guess what we end up with is a court battle to find out who has jurisdiction.

Mr. MacIntosh: That is very possible, because it appears that right now the securities issues are not resolved between the federal and provincial governments. There have been lengthy discussions. We have had a constructive dialogue with Ontario; nevertheless, the issues are not resolved at this moment. We are heading for a situation by June 30 where the minister here is going to ahead with his position, and we do not know where we stand. We are going to be hung up between the two.

Mr. Ferraro: After this statement, give me your reaction or the reaction of other members of the delegation. You say the consumer is going to suffer as a result of Bill 116 if there are not certain exemptions. Indeed, I suspect the bankers would like to say: "Hell, we should not be involved with it at all. It should all be federal jurisdiction," because it makes it a lot easier.

In my view, purely from a consumer standpoint, by granting trust companies, which are dwarfed by the banks--and I am not saying that is bad; I am not here to beat up on the banks, far from it--some broadened powers, you are, in essence, creating more competition. Most fundamental laws of economics indicate the consumer is going to be a winner when you have more competition.

Mr. MacIntosh: My point is that there is going to be less competition. We will not be able to supply the market as much. There is not more; there will be less. You say the trust companies are overwhelmed. To give you the numbers--

Mr. Ferraro: Certainly in commercial and retail lending, as opposed to mortgages.

Mr. MacIntosh: We are talking about residential, are we not?

Mr. Ferraro: No, I am talking lending, period.

Mr. MacIntosh: That is quite a different issue, of course. It is not on the agenda here. We are not arguing that issue here, but if you are talking about commercial lending powers-

Mr. Ferraro: Which is in the act; it is being addressed.

Mr. MacIntosh: That is not relevant to Bill 116.

Mr. Chairman: As I understood your presentation, you were talking about mortgage loans.

Mr. MacIntosh: Strictly residential mortgages.

Mr. Ferraro: Okay, I was thinking of the other things. On that, I agree. I thought there were some statistics out from the Trust Companies Association of Canada. Having worked for a trust company for a number of years, I have always seen a lot of statistics. Are you saying there is nothing available from the trust companies on how much lending they do?

Mr. MacIntosh: I am not saying there is nothing. You can get the reports of individual companies. Some of the bigger companies report quarterly, as the banks do, but you cannot get complete data for the whole industry. You will not get it from the trust companies association either, because the biggest trust company is not in the association.

Mr. Ferraro: Canada Trust backed out.

Mr. MacIntosh: As for the credit unions data, it is even further behind. It is a year or two behind that, if indeed it exists at all.

Mr. Ferraro: How much of your portfolio of banking and residential mortgage lending would be contingent upon the self-dealing or the transfer from the bank to the subsidiary?

Mr. Alton: One hundred per cent. At the Bank of Montreal, all their mortgage loans are in the mortgage subsidiaries.

Mr. Ferraro: And the mortgage subsidiary gets all its money to lend from the bank.

Mr. Alton: All the money we raise to finance that mortgage portfolio is raised by our parent bank. Our parent bank sells guaranteed investment certificates and investment certificates.

Mr. Ferraro: Yes. And then transfers the money to the subsidiary, and the subsidiary lends it out.

Mr. Alton: That is right.

Mr. Ferraro: Then let me ask Mr. Offer to clarify this, because unless I am--maybe I do not wake up until Thursdays. We are not suggesting by this bill that the banks are going to be out of the residential mortgage lending business, which is the implication I am getting from the bankers.

Mr. Offer: Absolutely not. The bill comments only on the affiliates. Certainly not, and with respect to the comments which were made with respect to the lack of exemptions, there are possibilities of exemptions following in subsection 39(3).

Mr. MacIntosh: The possibility of exemption is not the basis on which we can run our business. That is the point. We want an exemption in the statute. For you to tell us there is a possibility of exemption--do you expect these people to run their mortgage subsidiaries on that?

Mr. Epp: It is probably probability more than possibility.

Mr. MacIntosh: Well, probability too. We do not run our businesses on possibilities and probabilities. We want a clear statement in the statute.

Mr. Ferraro: I must admit, and I hope to get a response from the ministry at our next meeting on this point, that if in fact that hypothetical

nature about this lending in the mortgage field, particularly as a subsidiary office field, is in jeopardy and not secured, then quite frankly, I think the bankers have a legitimate concern, and I am an old trust company employee.

Mr. Ashe: So do I.

Mr. Ferraro: But in the interests of all concerned, particularly the consumer, without that competition, it is just not there. Having said that, the bankers are not lily-white in the lending profession either. It has been my experience that, up until the last--

Mr. MacIntosh: --using a credit card.

Mr. Ferraro: In the last three years, for some reason the bankers all of a sudden got a lot of money and got more interested in the mortgage lending field. But up until about three years ago, it is my understanding the trust companies did the majority of residential lending.

Mr. MacIntosh: Wait a minute, Mr. Ferraro. Just wait a minute. We did not have the legal power to go into mortgages. We did not have the legal power; that is only recent. It was done in the act of 1967, and the fact is, before that, we could not do it. To tell us we did not do something--

Mr. Ferraro: I am talking about from 1967, let us say, to 1984, Mr. MacIntosh.

Mr. MacIntosh: We will be very happy to show you the data covering that whole period and showing the fact that the banks--

Mr. Ferraro: Are you saying that during that period the banks did more residential lending, for the most part, than the trust companies?

Mr. MacIntosh: Absolutely, and I will tell you this. When the interest rates were very high, in the 1981-82 period, most of your nonbank lenders pulled right out of the market and the credit unions disappeared from the market altogether.

If you want to look at the numbers, our share of the market in 1980 was 23; in 1981, 23; in 1982, 28. The trust companies' share went down from 44 to 41 to 35 in that period. It is a complete myth that the banks did not support that market. On the contrary.

Mr. Ferraro: The point I made was that the trust companies did more residential lending than the banks.

Mr. MacIntsoh: I am sorry, that is not true. The banks increased their share from nothing to more than the trust companies. At the present time, 1985, the latest available data--

Mr. Ferraro: I agree with you that from 1985 on, I am sure the banks were much more aggresssive and did that, but by and large, in the period from 1967 to 1984, let us say, I believe the trust companies did more residential lending than the banks.

Mr. MacIntosh: I am sorry. They started from a much higher level, so of course they were still bigger. We started from zero.

Mr. Partington: It does not matter.

Mr. Ferraro: It is a nebulous point, you are right.

Mr. Chairman: It would be helpful to members of the committee, Mr. Ferraro in particular, if you could at some other time provide us with figures on that.

Mr. MacIntosh: We will get those for you.

Mr. Ferraro: I have one final question, though, and I want to get back to what I started on, Mr. MacIntosh, because I find that I must be interpreting it the wrong way.

When you say the banks cannot respond, and I think you said because of the two conflicting regulatory powers--and I have empathy and sympathy about the fact that you need more than a promise of an exemption if, in fact, my understanding of what they are going to do to your lending, mortgage lending in particular, without that guarantee, would seriously affect the competitive nature of the whole damned industry. But you said something about, the banks would be forced to respond. Did you mean that in the context of just that mortgage lack of guarantee you have, or do you mean that in the context of the two regulatory bodies?

Mr. MacIntosh: The two regulatory bodies. We would be responding to our federal authority on the one hand, and on the other hand, trying to conform to Ontario law which is different, which prevents self-transactions between the two without an exemption.

Mr. Ferraro: Let me be very blunt then, Mr. MacIntosh. Are you saying that, if you guys do not get your way, the richest province, where most of your business is, where most of your head offices are and indeed where you probably get most of your wealth out of this country, is going to be blackmailed? Is that what you are saying?

1430

Mr. MacIntosh: I am not saying that.

Mr. Ferraro: You said "respond"; what do you mean by that?

Mr. MacIntosh: I am saying you were the ones who were initiating the legislation which puts us in an impossible position.

Mr. Ferraro: But you made the statement on behalf of the banks that because of the two regulations--and I just asked you to clarify it--the banks would be forced to respond. That can only indicate to me that what you are going to do is make it more difficult. Forgive me, if I am being argumentative, but explain what you said.

Mr. Cleghorn: Could I perhaps jump in here for what it is worth? We are the largest provider of home owner mortgages in Canada. We look at this thing very seriously because what it is going to say is, if we get caught between Ontario and the federal regulations and then we go back to what we are empowered to do strictly within the bank, that will limit the amount of money that we can put into mortgages in Ontario, period.

Mr. Ferraro: Fair enough, but if we give you the guarantee--

Mr. Cleghorn: If; maybe sometimes you will and sometimes you will

not.

Mr. Ferraro: Let us make that assumption, Mr. Cleghorn.

Mr. Cleghorn: I suppose if we get the guarantee--and then what about the ability to move the mortgages back and forth between the parent bank and the sub, for which we stand fully responsible with the full faith and credit of the organization through the operation?

I think the feeling is that if we have to raise the price that we have to pay to attract deposits through our branch system to support the mortgage portfolio in the subsidiary, we are going to have to charge more on the mortgage side, which means we are going to be less competitive, which means it will result in a lower flow of mortgage funds into Ontario.

Mr. MacIntosh: Why should we be dependent on specific exemptions placed there by order in council? We want to see a statute that binds it in and we simply do not see the point in holding off and saying: "We will give you an exemption later on. Just trust us. It will be okay." Okay when? With this government? What about the next government? You cannot undertake to operate on that kind of assumption about what will happen. If in fact you intend to give the exemption, then what is so big a problem about putting it in the act? If that is what your intention is, then do it.

Mr. Ferraro: One last question. Mr. Cleghorn, if I get the end of your statement, that if you cannot have interbank transfers of funds, I guess, and you have to go out and offer more for your guaranteed investment certificates, are you not saying that--

Mr. Cleghorn: We have reserves against the funds if we go directly through the bank, as opposed to through the subsidiary.

Mr. Ferraro: All right. But if you have to go to the market to get your money for your GICs, to compete along the same lines as the trust companies, for instance, are you saying you cannot compete?

Mr. Cleghorn: There is a difference in the bank itself. In the bank itself it costs us about one half per cent to carry reserves with the Bank of Canada, which trust companies do not have. So, assuming we want to attract deposits, we cannot pay equivalent market rates for those deposits. Obviously, to get the same spread for the shareholders, we would have to charge more for the mortgages, which could have an effect of raising the general level of mortgage rates throughout the province, because the banks are major players.

Mr. Ferraro: I find that hard to believe. The intent of the legislation is to give Ontario the best protection in the country. I cannot understand why the largest players in our economy cannot adapt to it; I truthfully cannot.

Mr. Cleghorn: We were just asking that it be in the bill.

Mr. Ferraro: I think you are asking too much on that.

Mr. Alton: I was just going to clarify for Mr. Ferraro. The banks have a statutory limit as to how much they can invest in residential mortgages, conventional mortgages. That is 10 per cent. If all our business were done in the bank today--we are at 16 per cent, so we are way over the limit.

Mr. MacIntosh: It is not a question of our blackmailing Ontario; it is a question of to conform to the act, we would have to reduce our activities.

Mr. Ashe: They would not have any choice.

Mr. Chairman: According to federal legislation.

Mr. McFadden: I am quite sympathetic to your concerns about trying to get exemptions and being certain they will stick. I think in fact probably there is too much in the way of discretion allowed government generally in legislation, be it by regulation and all kinds of things. Speaking as a lawyer on that matter, I just feel in general it is not healthy because the citizen, the corporation and so on does not always have a clear idea of where they stand. I am sympathetic to the issue you have raised.

I would like to ask you a couple of very specific questions with regard to the operation of the typical mortgage corporation. How exactly does it work? These are separate corporate entities. How do they work? You were talking about that you did not want a separate board and so on. How exactly do the corporations work now in the relation between the bank and the mortgage subsidiary? What is the typical working relationship?

Mr. Clarkson: The working relationship is very closely intertwined. Our mortgage subsidiary has no employees, for example. All the administration of our mortgage portfolio and the generation of the new applications is done by our branch system. As those mortgage loans are generated at the branch, they are in turn sold to the mortgage loan subsidiary.

Likewise, we offer through the bank our guaranteed investment certificates in the name of the mortgage subsidiary, once again fully guaranteed by the bank. In our particular bank, at the Toronto-Dominion, the loans are guaranteed as well. If a loan goes into default, we can sell it back to the parent bank, which provides all the protection in the world to the depositor, in other words, more so than any other loan company operating in Ontario because you have the double protection. You have the assets to protect it. You also have the guarantee of the parent bank. As I mentioned, we have no employees. Everything is done for the mortgage corporation for a fee by the bank.

Mr. McFadden: Is that typical of all of the bank mortgage corporations, it is all the same office?

Mr. Clarkson: Yes.

Mr. Alton: It is the same as our bank. We have no employees in the mortgage loan corporation. We bought all of our mortgages from our parent bank. Our parent bank arranges all of our financing. The parent bank sells our guaranteed investment certificates to the branches. It is just a shell so to speak. The bank guarantees all of the indebtedness of the subsidiary.

Because we are a federal loan company, we are regulated by the federal department of insurance. We are registered with the Canada Deposit Insurance Corp. and regulated there. We are regulated under the Bank Act. We are regulated in Ontario under the Loan and Trust Corporations Act. We are subject to two sets of outside shareholders' auditors and we also have inspectors internally in the bank who inspect us. There is a lot of regulation. I have to set aside a space in my department for auditors and they are there for about six months of the year. Different ones of course.

Mr. Taylor: You make them too comfortable.

Mr. McFadden: You are well regulated. Now what about your boards of directors, you have to have directors of these companies. These are basically dummy directors or how is it that these boards are formed?

Mr. Cleghorn: Let me comment on how ours is done. We have seven directors. Six are senior officers directly related to the area of either personal lending or mortgages right from the head of the executive committee who is responsible for that. We also have one outside director who is not a director of the parent bank and he has been a director since incorporation of our original mortgage subsidiary in 1968.

Mr. McFadden: Now do those boards actually operate in the fashion of a board having formal meetings or is it really a management-operated thing with the board not really functioning formally--

Mr. Cleghorn: No, no. They have meetings. In fact they just had one last week. It is an operating unit of the bank and it is subject to review by the parent bank's board of directors on top of it. You already have another independent review, if you will, and we view this in various committees, including our lending committee which has a group of external directors from the parent bank on it. You are already getting that kind of regulation.

Mr. McFadden: One question that Mr. MacIntosh raised was the essential redundancy of an independent director in this sort of situation. Would there be any merit in having independent directors in that kind of a board or you cannot see any at all, is that right?

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Mr. Clarkson: I do not think there is any more merit in having it in the mortgage subsidiary than there would be in having some independent directors for our consuming lending or for our corporate commercial lending. This is an arm of the bank. In our bank, the directors are made up of people from different parts of the bank, senior people, for example, our comptroller and our legal counsel. The president of our bank is chairman of the mortgage corporation. We draw expertise from the different areas of the bank to sit on that board and we meet once a month, as any other board would do.

Mr. McFadden: In effect, this is really a division of the bank but, because of regulations somewhere else, you have created a legal entity that is essentially a shell to work around other regulations.

Mr. Clarkson: We have had to do that.

Mr. Cleghorn: It is a shell with the full faith and credit in the responsibility of the organization.

Mr. McFadden: It is fully backed.

Mr. Cleghorn: Yes, absolutely.

Mr. McFadden: One other point I would like to ask about is--

Mr. Chairman: Very quickly.

Mr. McFadden: Yes, this is very brief. It was just the point that

was made about what would happen if this legislation were to come in and either you were not happy with the current terms or you were not granted an exemption, one way or another. You are saying that, at that point, there would tend to be a withdrawal somehow from the mortgage market.

If you were granted an exemption and you had one--and I do not want to be unfair because I know it is a business decision and you do not want to jeopardize your own case--would you really want, in the short run, to withdraw from your Ontario market? If you were granted an exemption that allowed you to carry on just the way you are now running, I am curious to know if you would want to withdraw from the Ontario mortgage market. Looking at the Canadian mortgage market today, I do not think you would want to invest in the west.

Mr. Alton: Oh, we do.

Mr. McFadden: Maybe you would. I am just asking you what all the alternatives to the Ontario market are. I am not trying to say that you do not have any alternatives, but I am curious as to how valualble a lot of other alternatives at this point really are to you. If you were to invest in other alternatives, what would they be? Would it be commercial lending, residential or elsewhere? T mean the bank is going to continue in the market with GICs. Where would you put your money if you were not in residential Ontario?

Mr. Holmes: Mr. McFadden, if I can answer that, you are asking what we would do if we were granted an exemption. I think if we had an exemption that was satisfactory to us, we would want to stay in the Ontario market just as we are now. Our concern is that if we are not granted an exemption which is clear so that we can continue to meet the requirements of the federal act as well as being exempted from Ontario legislation, then we have a problem posed to us.

The Ontario market is the dominant mortgage market in Canada. There is no question about it. It is the one that is the strongest at the moment as well, and we want to stay here. My sense of it is that each bank would have to judge it on its own in the absence of an exemption, but I think mortgage rates would increase in Ontario in the absence of an exemption. The reason they would do so is that we would be forced to incur much higher costs in our mortgage subsidiaries as a result of meeting the requirements of the act than we do right now.

Mr. McFadden: If you are lending directly to mortgage subs.

Mr. Holmes: Right. As some of the other witnesses have pointed out, the federal legislation prevents us from doing all the mortgage lending in the bank. We do not have that option open to us. Therefore, we would incur higher costs partly because we would not have the parent guarantee on our liabilities and partly because we would not have the branch distribution system to raise mortgages, which we are using now through the services of the bank, as the way to originate mortgages and service them. I think the costs would go up.

I see no alternative but for the banks to try to recover the costs. If we were unable to recover the costs that way, I suspect what we would have to do would be to try to rationalize the mortgage distribution system we have, which would not be in the interests of Ontario consumers.

Mr. Chairman: Before we go any further, Mr. Offer has an announcement.

Mr. Offer: Mr. Chairman, through you to the committee and to the deputants, we do not believe that the bill before you now catches the bank guarantee within the general ban on self-dealing. We recognize that you feel it does. We believe and we have been advised that it does not; however, we have, on that basis, no reluctance to make it very clear by amendment in this legislation that it does not.

Having said that, you have indicated some other conflict problems. We would like to know on a precise basis where, apart from that situation, you see any further conflict. On a very precise basis, we do not believe the bank guarantee to its mortgage affiliates is caught within the ban on self-dealing, and I would prefer to move an amendment to make that even more clear.

Mr. MacIntosh: That is exactly the source of our uneasiness, the statement that was just made. My senior counsel says there is nothing in Bill 116. We have a letter from Mr. Kwinter, dated March 25, with an attachment.

Mr. Chairman: I think Mr. Offer is saying he is prepared to put it into Bill 116.

Mr. MacIntosh: Yes, but if he is unclear on whether it is in there now, that is reason--

Mr. Epp: No, he is clear. He said he was very clear that it is not in there but there seems to be some difference of opinion on it and he is prepared to give you a guarantee that addresses your concern.

Mr. Chairman: I think what the ministry is saying is that it is prepared to agree to an amendment that would make it clear.

Mr. Ashe: A very specific amendment.

Mr. MacIntosh: I hear you, Mr. Chairman, but I am saying if there is a difference of opinion right now on what the bill presently contains, that shows you that we will have problems with amendments. We got a letter from the minister which says--this is his own statement--"Bill 116 does not prohibit a bank from providing a guarantee on the deposit securities of its subsidiary loan corporations."

He is now saying, "If it is not clear, we will make it clear." That is fine, but that is exactly why we are concerned with exemptions like this. If it is not clear, they will make it clear. Does that mean exemptions?

Mr. Ferraro: That is why you are appearing before us as a delegation, Mr. MacIntosh. You could get five lawyers with five different opinions.

Mr. Chairman: Mr. MacIntosh, has this offer been made to you before?

Mr. MacIntosh: No.

Mr. Chairman: All right. Perhaps we can hear it out.

Mr. Offer: Mr. Chairman, through you once more, we stand by that letter. Make no mistake about it; we do stand by that letter. However, on the basis of your presentation, we believe that the current legislation does not catch bank guarantees within the ban on self-dealing, but for the sake of clarity, because you have said you think it does catch, we are prepared to

move an amendment to make it clear, to reinforce what we said in the first instance, that it is not caught.

We are not backtracking from our position; we just want to make it very clear, on the basis of what you have requested, very clear.

Mr. Chairman: It sounds as if the issue of principle, in so far as the ministry is concerned, is resolved. I understand from the anxious look on your faces you are saying that does not mean the amendment will, but you are going to have to wait and see it, I think. Our time is running out.

Mr. Ashe: I think it is very bloody clear that the ministry is saying it is prepared to bring forth an amendment to Bill 116 that automatically identifies the chartered banks of Canada for exclusion from those pertinent sections.

Mr. Offer: On the guarantee.

Mr. Ashe: Yes, that is what I said. But that is only part of their concern. You have not been listening, obviously.

Mr. Alton: The self-dealing restrictions say we cannot purchase from, lend to or carry on any other financial transactions with our parent. That is what the legislation says. It is welcome that we are going to be exempt so we can guarantee our subsidiaries, but we want to be able to sell mortgages to and provide financing to our subsidiaries so they can carry on their operations.

Mr. MacIntosh: The moral of the story is that if there can be a difference of opinion like this about what the bill now says, there can also be differences of opinion as to whether the exemption is adequate for us. That is our concern.

Mr. Chairman: All right, but we will have to wait and see what the ministry is offering. Members of the committee will have to pass judgement on it.

Mr. Chairman: Mr. Ashe, you have a question.

Mr. Ashe: That was the part I was going to start with. I was going ask Mr. Davies exactly that. What has been the reason to date? Frankly, I get the feeling that we are in that era still where the minister and the ministry in Ontario are continuing to flex their muscles vis-à-vis the minister and the ministry in Ottawa as to who has jurisdiction over what.

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I am not only talking about this area but also about others. I will not go into details, but there is where the banking community is caught in the middle. I appreciate it is difficult to have two masters, but I also accept, whether we like it or not as a province, that there is general agreement that the federal government in this regard has much more clout than we do over the banks in Canada.

I do not know why they do not make it very clear that there is plenty of supervision there now. Why do we not just say, "They are excluded"? What is the concern? That is what I would like to hear from the deputy.

Mr. Clarkson: I would like to ask the ministry what it hopes to accomplish by including us in the bill, or what is the risk in excluding us, giving us a blanket exemption. We told you how we operate, that we are a part of the bank. Why do you want to involve us in the bill?

Mr. Taylor: Could you give me the rationale for this?

Mr. Clarkson: I just asked that question a moment ago.

Mr. Taylor: I know you have, but we have not had any answers. We are looking for them from the staff. If it is not a power play in a jurisdictional sense between the federal and provincial governments, as Mr. Ashe has suggested it may be, then we have a different situation altogether. We are talking about non-arm's-length, really, in the relationship between the mortgage corporations and the banks. Nothing could be less than non-arm's-length.

Mr. Clarkson: The Bank Act says that it is arm's length.

Mr. Taylor: Here you are dealing with legislation that is trying to ensure arm's length. It seems contradictory in a way to me. I am looking for someone to address the evil that the consumer is suffering that this legislation is going to eliminate.

Mr. Chairman: Here is Bryan Davies, the deputy minister of financial institutions.

Mr. Davies: I think the questions are phrased in an accurate manner. I think all in this room would agree that the mortgage loan subsidiaries are a unique animal. Mr. McFadden asked earlier why they are in existence in the first place. It seems to me, quite frankly, that they are in existence to get around a limitation in the current federal Bank Act, a limitation that is there for reasons I cannot speak to but the federal government can speak to.

The federal government, in its wisdom, saw fit not to allow banks to participate directly in the mortgage loan business to the extent that the banks choose to participate in the mortgage loan business. Therefore, it created these entities that I suggest are somewhat artificial, in that they are not really different from the bank but they get around it--I guess that is the term I would have to use--by creating this separate entity.

Then the question resolves to whether the equals approach, the concept that was outlined to you yesterday, which was endorsed by the standing committee of the Legislature that looked at predecessor versions of this bill in white paper form and felt so strongly that it should be there, that everyone operating in the loan and trust business in Ontario should be subject to the same sorts of rules as others, should be waived in this case.

I suggest to you that is the issue, when you wipe away all the other arguments. Are these entities unique enough that they deserve to be treated in a totally unique way and left out of Bill 116? To date, it has been the government's position that the equals approach is paramount and that anyone operating in the mortgage loan or loan and trust industry in Ontario should be subject to the same rules.

With respect to the concerns that have been raised today, I heard a very specific concern, one of legal interpretation, as to how the self-dealing ban would affect guarantees provided by a parent to a subsidiary. My minister has

made it clear in correspondence in the past that he does not feel that is a concern, nor do our legislative counsel. Someone suggested that if you ask enough members of the legal fraternity you may get different answers to a lot of questions, but the legal counsel who guided us in the forming of this bill and the legislative counsel who helped to draft the bill did not feel that was a concern.

If there is that worry, however, for the sake of greater certainty, we can certainly introduce an amendment to wipe away any lack of clarity on that. If one looks at the rationale, of course we would love to have guarantees of subsidiaries of this nature. That further improves and enhances the solvency and the ability of those groups to meet the needs of depositors and consumers in Ontario.

As for the other specific concerns raised, there was a concern about the capacity to meet directors' requirements and to have a certain number of outside directors on the boards. I leave it to the discretion of the committee to determine whether that is an unreasonable demand. It did not seem to be unreasonable for other companies operating under the Loan and Trust Corporations Act to have independent directors, and that provision was put there for a reason.

Another suggestion is that the general ban on self-dealing may preclude movement of assets from a parent to a subsidiary and back and forth. Quite frankly, I am not familiar enough with the nature of the transactions that are contemplated--I am not sure exactly why they would be contemplated--

Mr. Ashe: It is where the money comes from.

Mr. Davies: --to know whether that is a problem, but I come back to my fundamental point that the equals approach is what the government has endorsed to date. It was felt that to exempt any particular group from it would not be appropriate at this time.

Mr. Chairman: We have heard both sides of the debate. We are a little over time, but because of Mr. Davies's comments, I am going to let Mr. Cleghorn have a very brief response. Then we will end the presentation.

Mr. Cleghorn: I just have one comment. The mortgage subsidiaries are wholly owned subsidiaries of the banks and are authorized and governed by section 193 of the Bank Act. An earlier Bank Act did not enable banks to get into this, but there was a recognition that this was a practical solution. Rather than disrupting the normal flow of business and the involvement of the banks in the mortgage business, it was permitted under this.

I might also point out that there are not just residential mortgages involved. Our bank has farm mortgages and also small business development bonds within our subsidiaries, which are generated by a whole raft of branches in the smaller communities as well as large communities.

Mr. Chairman: Mr. Ashe, do you have a new issue?

Mr. Ashe: Not really. I think we as the committee want to make very clear--at least, I do--how it works. I hope the ministry is listening.

Mr. Chairman: That would come at the time of clause-by-clause debate.

Mr. Ashe: No, it does not.

Mr. Chairman: Unless there is another specific question you want to ask this witness.

Mr. Ashe: That is exactly what I am going to ask.

Mr. Chairman: The question is?

Mr. Ashe: Just to make sure, the question is, for example, if you need an extra $10-million infusion in your mortgage subsidiary tomorrow because the market is taking it up--I presume that is happening virtually every month in the market in Ontario--do you feel you could not do that under Bill 116 as it is now written?

Mr. Alton: I could not borrow from my parent.

Mr. Ashe: That is right. You would have to be out of the mortgage business until you got a further significant infusion of repayments, and then you would be able to turn that over again.

Mr. Alton: That is right.

Mr. Ashe: If you wanted to increase your portfolio from your parent, you could not do so. Is that correct?

Mr. Chairman: That is a precise answer.

Mr. Ashe: That is what I wanted.

Mr. Chairman: You may raise that when we are debating clause by clause.

Mr. MacIntosh: May I have 30 seconds to wind up? Fifteen seconds?

Mr. Chairman: Fifteen seconds.

Mr. Ashe: Twenty.

Mr. MacIntosh: I think the members of the committee have seen that there is no improvement in consumer investor protection in this province obtained by this bill. The only objective of the ministry with the equals approach is to ram everybody into the same barrel, whether or not it will do any good. That is all.

Mr. Chairman: Thank you very much. Obviously, you gave a very strong presentation. We are going to hear now from the Trust Companies Association of Canada Inc. Mr. Ferraro, do you have a point of order?

Mr. Ferraro: I was just going to say--this may have been addressed, and I stand behind my position about legal opinions--in fairness to the banks, maybe they can have their counsel draft up amendments pleasing to them for consideration by the committee.

Mr. Chairman: Good idea.

Mr. Ferraro: Then they will see our response to it and the ministry's response to it.

Mr. MacIntosh: We will respond to that.

Mr. Epp: Providing we do not get the legal bill.

Mr. Ashe: I do not want it added to my mortgage rate, either.

Mr. Chairman: We will welcome that, and we will look forward to receiving your draft amendments.

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Mr. Chairman: Now we have the other side of the coin. We have the Trust Companies Association of Canada Inc. We have with us representatives of the association, whose chairman is William Somerville. Mr. Somerville, to your right is whom?

Mr. Somerville: Brian O'Malley.

Mr. Chairman: Brian O'Malley, president and chief executive officer of Standard Trust Co. To your left is William Inwood from Royal Trust and Michael Hasley, executive vice-president of Guaranty Trust Co. of Canada. Welcome to our committee. I hope you can get our blood pressure down. The brief is in front of committee members. Perhaps you can lead us through it and then entertain some questions.

TRUST COMPANIES ASSOCIATION OF CANADA INC.

Mr. Somerville: Thank you giving us this second opportunity. We appeared before you before and commented on a number of major issues, as you recall, respecting Bill 116. Since then, our association has had many useful discussions with ministry officials. A committee of the trust association and the Canadian Bar Association--Ontario has worked with the Ontario government in what we think has been a very useful dialogue and I think we have made tremendous progress. We are most gratified.

As a result, we are pleased to inform the committee that a number of outstanding issues have been resolved in the form of amendments proposed by the ministry officials, and they are before you. We would like to commend the minister and his staff. We would like to commend the deputy minister, Bryan Davies, Jim Wilbee, Colleen Parrish and Don Reid from the department. We have never had better relations and better working conditions, and it has been great.

There are still a few outstanding issues we have to deal with and we will speak about them in a moment, but we do say there is an urgency to enact this bill. I think it is imperative that it be done sooner rather than later.

With the amendments proposed by the Minister of Financial Institutions (Mr. Kwinter) and those we have here today, we can wholeheartedly support the legislation. The proposals have a few concerns. One that is very important is the equals approach. You have heard a lot about that from the banks. The second is the extension of investment powers of commercial and consumer loans. The third is membership in the Trust Companies Association. The fourth is conflict of interest and related-party transactions. The fifth is directors' liability. The sixth is consent for transfer and issue of shares. The seventh is small company concerns.

On the equals approach, the problems still remain. This is the approach that forces companies to manage their affairs outside the province according

to Ontario law and it removes rights that have been granted by other licensing jurisdictions. We feel this should be changed.

As we pointed out in our previous remarks, our industry is very concerned about the lack of harmony between the federal and provincial proposals. They are quite different and very conflicting. The federal proposal gives broad commercial and consumer lending powers, whereas the Ontario legislation is quite restrictive. The equals approach would impose these restrictions on the extraprovincial or federal trust companies. We understand fully that the province desires to ensure that depositors' money be safe and not be exposed to undue risk, and we support that policy. However, we realize there are certain things that are beneficial to institutions and we should take care of them.

Federally chartered companies would be forced to adopt more restrictive investment and lending policies than they would be permitted to exercise throughout the rest of Canada.

The trust industry has been a strong innovator and has made changes in the financial services sector. The consumer has been the beneficiary of these changes. We believe the equals approach will handicap the competitiveness of the trust industry.

In our view, the aims of the equals approach, the protection of depositors and consumers, could be more efficiently and fairly achieved by exempting federal and provincial trust companies that have achieved a certain level of size, say, of $50 million in capital. Listening to the banks, I think the capital approach could be a consideration that would answer both sides.

The equals approach is found in two aspects of Bill 116: section 39, referring to a number of provisions, and part X, which deals with investment powers. Accordingly, we are proposing two amendments in this regard. These amendments are attached and I will not burden you with them now.

The extension of investment powers--commercial and consumer lending: Under the federal proposals tabled by the Minister of State for Finance, trust and loan companies will have substantially increased powers for consumer and commercial lending. Provided there is $25 million minimum in capital and with supervisory approval, there is no limit on consumer lending. We feel these are reasonable proposals. They recognize that consumer lending does not pose a threat to solvency and that a minimum level of capital is necessary for unrestricted commercial lending.

In order to maintain its competitive position, the trust industry in Ontario must be assured of the same expansion of direct powers to lend and invest. Bill 116 proposes limits on commercial and consumer lending, as well as other investment rules found in part X of the bill. These provisions respecting powers must be modified and enlarged in the light of the significant new proposals of the federal statement. In particular, we stress the importance of removing limits on commercial and consumer lending in Bill 116.

The federal proposals have recognized it is imperative to have unrestricted commercial and consumer lending to allow the industry to compete directly with the banks. Prior to 1967, trust companies dominated the mortgage market. Since the Bank Act revisions of 1967, the chartered banks have taken a huge percentage of the mortgage market in Canada. Therefore, as a matter of

competitive necessity, the trust companies must be given a wide commercial and consumer lending ability.

By the way, we do have statistics on the trust industry mortgage lending and I have them here somewhere; that I can leave with you.

Mr. Chairman: Post-1984?

Mr. Somerville: For 1985. Here they are. I will pass them up to the chairman.

We are therefore proposing two amendments to enlarge the commercial and consumer lending to unlimited and to remove the limits on consumer and commercial leasing.

Membership in the trust association: We feel it is an imperative that every trust company that wants to operate in Ontario should be a member of the association. There are many benefits, such as the benefit of providing statistics, the benefit of having your peers overseeing what you are doing, the benefits of communication and the benefits of being a pipeline to the officials. We think it is an imperative issue. If the industry had been listened to in a number of cases in the past, we would not have had as many problems as we have had with some of the past companies.

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Conflict of interest and related-party transactions: When the association made its statement to the committee in February, we noted that there were a number of major issues raised by part IX. We are pleased to report that there have been some amendments that would result in more workable rules. However, a few issues remain. Part IX of Bill 116 is directed at a policy of protecting the public from activities that may threaten the solvency of financial institutions. The association has repeatedly stated that we share the Ontario government's concern but we have also emphasized that the regulation of trust companies must be done on a workable basis.

Bill 116 recognizes that there are some non-arm's-length transactions that are dangerous to trust companies' solvency. We agree and we feel they should not be permitted. However, Bill 116 also recognizes that a number of related-party transactions can be beneficial to customers of trust companies and are a necessary and reasonable part of commercial activity.

Therefore, the association recommends a three-tiered approach that would consist of the following: First, a ban on harmful transactions; second, reviewable transactions controlled by careful review and monitoring by the board of directors; and third, pre-clearance procedures with the supervisors for unusual transactions. We believe that Bill 116 satisfies the first two. However, the trust industry is concerned about the absence of a workable solution for the third.

We appreciate that part IX represents a new set of rules that would apply to trust companies for the first time to deal with related-party transactions and potential conflicts of interest. We are concerned about situations arising that, although quite appropriate and reasonable, would not fall within the strict language of the provisions. In these situations there must be a workable solution whereby we can apply to the superintendent of deposit institutions for permission to carry out reasonable transactions. Unfortunately, the only provision in the act is to apply to the Lieutenant

Governor in Council and we feel that is not a workable solution in that it would not be done in time to be of any value.

We note that a similar type of workable exemption is found in the Ontario Securities Act that allows for an exemption order by the Ontario Securities Commission. Therefore, we are proposing an amendment in this case.

The association also has a comment with respect to one of the reviewable transactions with a restricted party that requires the approval of the board of directors. This is the rule with respect to a written lease of real estate or personal property. This restriction requires that the lease does not exceed five years and we feel that could be a very harmful rule. It could be beneficial or otherwise, but we think the board of directors should be permitted to sign a lease for longer than five years or to sign one with an option to renew. Therefore, we are proposing an amendment in that regard.

The director's liability is becoming more important every day. One of the major features is that it modernizes corporate governance rules for trust companies, including the upgrading of duties and responsibilities of directors. All business corporation statutes recognize that directors of a company can properly and reasonably rely on expert advice and opinion. The association believes that directors shoud not be fixed with liability for a decision taken in good faith on the basis of expert advice and opinion. It is unfair to expect nonexperts to satisfy themselves on questions that require the advice of experts like accountants and lawyers, etc.

Therefore we are proposing two amendments taken from the Ontario Business Corporations Act. The first amendment would allow directors to rely in good faith on information prepared by experts. The other would relieve a director from liability for the issue of shares for inadequate consideration where a director can prove that he or she did not know and could not reasonably have known that such was the case. It also recognizes that in fairness there ought to be a reasonable time frame for the kinds of liability fixed by section 105 of the bill.

Consent for Transfer and Issue of Shares: There are still some matters relating to share ownership that are not reflected in the amendments to the latest version.

A provision that requires attention is section 62, which along with section 63 would require the superintendent's consent for the transfer and issue of shares in a "deemed holding body corporate." This could include an ordinary business corporation that is completely unrelated to any trust company. The association has raised this point with Ministry of Financial Institutions officials and I believe they are sympathetic to this position. We are proposing an amendment there.

The smaller trust companies have a few concerns. Members of the trust industry that are smaller companies have voiced concern regarding certain rules affecting their commercial operations based on a percentage of total assets or capital base.

1. Loans to related persons: Smaller companies are concerned by the impact of the limit of "the greater of $250,000 or one per cent of total assets." For example, this would impact mortgage loans to related parties, such as members of the same family.

2. Approved loans to a director, officer, or employee: A similar concern

has been raised by smaller companies having regard to the restriction of a mortgage loan to 0.5 per cent of the capital base of the corporation.

In conclusion, in our previous presentation, the association stated that it would give its full support to the bill provided our earlier concerns were met. As we have stated, the process of consultation with the ministry officials has been a productive one.

We are assuming that all the amendments agreed upon by the association and ministry officials, and subsequently presented to the committee, will be accepted and approved. Therefore, the trust industry's support for Bill 116 is based on the approval of the ministry's amendments, along with those you have raised today.

As we stated, Bill 116, amended as has been recommended by the ministry and the association, will be a great improvement over what we have.

The rapid and significant changes in the Canadian and international environment in the last year have made it imperative that trust and loan company legislation be modernized. We are confident that the result of our proposals, combined with the government's amendments, will provide a framework for the delivery of the highest calibre of financial services to consumers in Ontario.

Finally, we would like to thank you for taking the time to hear us and for the priority you have given the legislation and we thank the staff of the ministry. We feel this consultation process will serve future business-government relations well.

Mr. Chairman: There are a couple of points of clarification. Does the general information bulletin you have handed to us include information from nonmembers of the Trust Companies Association?

Mr. Sayers: Yes, it does include information relating to nonmembers. The papers were originally done for a nation-wide survey of all trust companies regardless of membership.

Mr. Chairman: Before I get to questions, Mr. Offer has a point of information that in fact indicates agreement with one of your submissions and it may avert some questions.

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Mr. Offer: As you will recall, the minister was here before the committee February 5, and at the suggestion of the members of the committee, there was consultation which took place between many of the associations and interested parties.

I am directing my comments directly to point number six on page 9 of the submission to indicate that we are in agreement with that submission. We will be moving an amendment when we reach the clause-by-clause stage. However, just because of time constraints, we were not able to embody that particular amendment in the bill before the members at this juncture of the hearings, and I just wanted to indicate that to you, Mr. Chairman, and to the members and the deputation.

Mr. Somerville: Thank you very much.

Mr. Chairman: Thank you. I think the chair actually did have some private information to that effect.

Mr. Epp: I have two questions to Mr. Somerville and colleagues. One is that on page five you asked for unlimited commercial and consumer lending authority, I guess, or privileges. You refer back to the Bank Act of 1967 whereby you gave up a considerable amount of latitude or market for residential mortgages. At that time, was there an equal amount of market given up by the banks to the trust companies in other areas? In other words, was there a fair tradeoff or was there not?

Mr. Somerville: There was no tradeoff; it was a one-way street.

Mr. Epp: If that was the case in 1967, you would not mind getting an unlimited or maybe a greater amount of commercial and industrial lending authority or market?

Mr. Somerville: It is imperative that as the banks take a larger and larger percentage of the mortgage market, and as they are not making their loans to foreign countries any more--

Mr. Haggerty: Good or bad?

Mr. Somerville: --they are hitting the local market a lot harder.

Mr. Ferraro: If you had stayed the hell out of Dome, we would be a lot better too.

Mr. Somerville: I would be glad to give up every other kind of loan and stay in the mortgage business if the banks would stay in the commercial lending and consumer.

Mr. Ashe: I think you are unfair on the record, in that regard to indicate that--that part is true, vis-à-vis the banks and the mortgages, but similarly you were not really fully able yourselves to fill that market. The insurance companies filled a big part of it and they either moved back or were forced to move back because of competition from the share they had. I am talking about mortgages now.

Mr. Somerville: Oh yes, I have never said that we could have filled it all.

Mr. Ashe: No, I did not say you did. I think it is safe to say that if the insurance companies had not been there, we would have been really short in terms of available capital.

Mr. Epp: When the banks were to an extent lamenting about the regulations that they have, that control them and so forth, I was wondering whether that is synonymous with wealth. If that is the case, if wealth is going to go along with those regulations, then more people would like more regulations. But that is on another note.

More seriously, part of this new legislation has been necessitated by the problems that surrounded some of the trust companies a few years ago and the flip of 11,000 apartments, generally in Metropolitan Toronto. Does this legislation, to the best of your ability, address that problem, and could we then look forward to similar circumstances not occuring in the future, provided of course that the government does its part in enforcing the

legislation that is here and putting forward corresponding regulations, which it has promised to do?

Mr. Somerville: We feel that if the regulators are given these powers and the companies are given restrictions, as was suggested, there is no reason for another situation such as that to happen again. However, as you know, certain people spend their whole lives planning ways around the law, so that is not to say it will not happen again somehow.

Mr. Epp: I appreciate that, Mr. Somerville.

Mr. Somerville: I think this goes as far as you could go.

Mr. Epp: I am thinking that people who want to live within the law generally, and if they do not, that we catch them early enough that they cannot do too much damage in the market out there.

Mr. Somerville: I think the approving of the transfer of shares, and that they address the directors and the management, is a big step.

Mr. McFadden: I want to compliment you on the way you have done your brief. The inclusion of the amendments is a great help, along with the principles behind it. I think that was an understanding we had, but the brief is particularly useful to us as a committee, following this approach.

Mr. Somerville: Thank you.

Mr. McFadden: I think you were in the audience when the banks made their rather forceful submission here today. What is your association's view, and obviously, you have not checked with your board to give it officially perhaps today, but what is your view on the suggestion from the banks that they be exempt altogether from the operation of this act?

Mr. Somerville: Speaking for myself, I think the best approach for exemption is a limitation on capital, a minimum capital, and I have suggested for the extra-provincial companies a minimum capital of $50 million. If you use that, you could use that also to exempt the banks.

Mr. McFadden: So your feeling is that it would not be unreasonable, because of their size and their economic strength, perhaps to exempt them.

Mr. Somerville: The $50 million is no magic figure, but I think you could take some figure if you want to exempt them if they are at $100 or $200 million capital or whatever. I think that is the way to do it.

Mr. McFadden: You made a submission with regard to I think virtually compulsory membership in your association. How many trust companies operating in Ontario today are not members of your association as of now? I do not have the figures here, and perhaps the ministry does or you do, of the number of trust companies that operate in Ontario and what percentage of those are now members of the association.

Mr. Sayers: If I may answer that, we have a total membership of around the 40 mark, of which the majority do business in Ontario. I would think that, out of say 30 or 35 companies doing business in Ontario, maybe not more than 6 are not members, but that is just Ontario-wise, not the rest of the country.

Mr. McFadden: I understand one of the major trust companies is not a member. What about the others? You do not have to name names here, but are the others smaller?

Mr. Somerville: Most of the others would be smaller, yes.

Mr. Sayers: They are all small.

Mr. McFadden: So one big and five small.

Mr. Somerville: I think the big one needs it and I think the small ones need it, so I am very biased.

Mr. McFadden: Is there any reason you know why they are not joining up? I do not want to put words in your mouth and it is obviously hearsay. Is there any well-known reason? I have not read any.

Mr. Ashe: Is it a policy decision?

Mr. Somerville: I guess the chief executive officer of Canada Trust has never been a great supporter of the association. Ever, I guess, would be more like an honest comment.

Mr. McFadden: So it may be more of a personal thing.

Mr. Somerville: Prior to Mr. Mingay as the CEO, they were very active, strong supporters. Their member had been president of the association several times.

Mr. McFadden: The banks have given us a warning here today. Mr. Ferraro has talked in terms of almost blackmail, that if there were not secure exemptions that were satisfactory to them or if they did not get an exemption at all that this would have quite a significant impact on the mortgage market in Ontario. It could lead to increases in interest rates.

I wonder if you could give me some indication right now as to how adequate the supply of mortgage money is in Ontario. Do you have any figures on that?

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Mr. Somerville: I think there is an abundance of mortgage money. They were throwing around some figures and I do not have the broad ones, but just to give you an indication of some figures, our mortgage portfolio at National Trust is $7 billion. In order to increase it last year by $700 million, we did $3-billion worth of mortgage business. There is a tremendous turnover; a tremendous number of new people getting mortgages and a tremendous number of people paying them off. Since the early 1980s when the interest rates took the crazy jump, people have become much more concerned with paying off their mortgages. Instead of considering them as lifetime investments, they are now taking every opportunity to reduce them. Just to stand still, you have to do a huge amount of new business.

Mr. McFadden: Do you think that if the banks were to cut back to some extent their mortgage business in Ontario, the trust industry could fill the gap, or do you think you would inevitably be hitting supply problems in increased money for mortgages?

Mr. Somerville: I do not think you would be having supply problems because I do not think the banks will cut back. It is the best market in Canada.

Mr. McFadden: From the questions I was asking, I was not quite sure. I did not get an answer to that question.

Mr. Somerville: It is just like saying you would cut off your tail and go home.

Mr. Ashe: You missed their point too. What they are saying is that they could not because they could not funnel any more money into it. Use your example. If you were the bank, you would have been short $700 million last year, even though you did, as you said, $3 billion. You could not funnel in the $700 million, so you could not have done that business. That has been their main point unless I misunderstood them; because of the arm's length.

Mr. Epp: That is a Bank Act problem.

Mr. Inwood: Their objection was to increased regulation and it is just not imaginable that they would ever take a profitable income stream and say they will not do it because they have to be further regulated. There is no reality.

Mr. McFadden: The other question I had for you related to outside directors. You will recall that last fall we had a series of hearings with regard to corporate ownership and concentration of ownership among financial institutions. I know some of you were here then as well.

One of the things that we discussed was the appropriate percentage of outside directors and, in fact, there was some debate about who really is an outside director and how independent they are anyway.

One of the points that was made to us on more than one occasion was that the appropriate level of independent or outside directors be 50 per cent. I know the act provides for one third. Do you have any reaction in terms of whether it could be as high as 50 per cent or do you think one third is more appropriate?

Mr. Somerville: Well, I will let my associate comment also. Personally, I do not care whether it is 50 per cent, 60 per cent or whatever. I think it is better with a majority of outside directors.

Mr. Inwood: To give you a practical example, in the case of Royal Trustco, two thirds of the board are independent of the major shareholder, and it works. In my view, one third is, therefore, a modest step in the direction of a useful tool.

Mr. McFadden: That is my feeling. Out of five directors, five being the minimum number, it effectively means that you might have either one or two, but with the lower number it is really only one out of five.

Mr. Somerville: We have 42 directors and that is 20 too many. Six of them could be considered as insiders under this.

Mr. McFadden: How do the other companies feel they are represented? Perhaps you had not thought about this. I am just curious to see if you had given any thought to that as well.

Mr. O'Malley: I agree with Mr. Somerville. I think it is advantageous to have outside directors as a majority of your directors. It provides an outside influence, and I think it is important for the management that there be outside observers, who are not directly related with the business, who are overseeing what the officers of the company are doing. I would be happy with more than 50 per cent.

Mr. Hasley: We certainly have way more than 50 per cent now who are outside and independent.

Mr. McFadden: I wonder whether I could end by just asking one question. It struck me during the hearings that there was consensus on this committee; as well, we have just heard from the industry that it would be happy with 50 per cent or more. Would the ministry have any objection to a 50 per cent requirement? Is there a reason 50 per cent would not be satisfactory? It is one third now, but in view of even the view of the industry, I am wondering what is wrong with the 50 per cent?

Mr. Chairman: Colleen Parrish will answer the question.

Ms. Parrish: I do not think there is any particular magic in any number. One third was chosen because it was a significant proportion of the board, but the board would still be controlled essentially by insiders of the corporation. It was felt that since this was the shareholders' corporation and since there were higher requirements on the directors in general--but I do not think there is any sort of hard and fast position as to whether the number should be one third or 50 per cent. There was a sense that it should be significant.

When you choose 50 per cent, you really are asking the fundamental question as to whether or not outside or independent directors should control the board. That is, they would have more votes on the board than insiders of the corporation. That is really the fundamental question.

Mr. McFadden: I just find it interesting that the industry is more bullish on having outside directors than is the government. That is sort of the reverse of what you would normally expect and sort of the reverse of some of the other provisions in the act as well, strangely enough.

Ms. Parrish: I would just make this comment, that the larger companies have traditionally had a large proportion of outside directors. That has been less true of the smaller companies. The smaller companies are less likely to want a majority of outside directors, but that is just a comment as opposed to a firm position taken by the government.

Mr. Hasley: And the companies represented here are all publicly traded.

Mr. McFadden: I know you are. I am just trying to determine what the reasoning was behind this, and I guess the smaller companies might well have some worries. Anyway, I just found your comments interesting, because you did not deal with that, but it was something you dealt with all fall, so I found it interesting to get your views.

Mr. O'Malley: It may be the smaller companies that should have, speaking as a representative of a smaller company.

Mr. Chairman: Very quickly, Mr. Ferraro.

Mr. Ferraro: A minor part of the legislation which is kind of a bugbear, and I apologize if it has been addressed, but one of the suggestions, as indicated by Mr. McFadden and Ms. Parrish on behalf of the ministry, is that one third be outside directors. They indicate that the outside directors--let us hypothetically say there are 15, so there are five outside directors--cannot hold more than 10 per cent of the shares of that company.

I guess this would apply in particular to the smaller trust companies. If the intent of having outside directors is to make sure that the operation of the trust company not only meets all the regulations, but also, indeed, from the board's standpoint, is according to all the rights that should be applied to the proper running of a company dealing with the public--the point I am trying to make is this. If you have five members who technically could own nine per cent each--I am really hypothesizing here--you in essence have 45 per cent of the company controlled by outside directors. Would it not make more sense to have a further restriction on the percentage of shares that an outside director could hold? What is your reaction to that?

Mr. Somerville: My definition of an outside director would be one who did not hold anything like that amount of shares.

Mr. Chairman: I am sorry; I did not hear you.

Mr. Somerville: I said my personal definition of an outside director would not be one who held a large quantity of shares.

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Mr. Ferraro: In my view, at this juncture it should be limited--and I do not know what the magic number is--to maybe three per cent or five per cent, as opposed to nine per cent.

Mr. Somerville: I think that makes sense.

Mr. Ferraro: It makes a little more sense, unless I am missing something. I was just looking for a reaction from you on that.

Mr. Somerville: I cannot see any case where it would ever become a problem, whether you set it or not.

Mr. Ferraro: If you have the nine per cent, do you not agree there could be a problem? Using my example, you could have five outside directors holding 45 per cent of the corporation. When you have your inside directors, I suspect you have a pretty incestuous relationship there.

Mr. Epp: They could all be the same family.

Mr. Somerville: I would call them insiders.

Mr. Chairman: That is an interesting point. The committee thanks the witnesses very much. I know you have a very keen interest in what we are doing, for obvious reasons, and I can speak on behalf of the whole committee. It is obvious you and the ministry have spent a lot of time together working out a lot of problems, which seem to be ironed out now. There are a few little ones that we will perhaps attempt to wrinkle up a bit, but we appreciate your presentation to us and we will consider it very carefully.

Mr. Somerville: Thank you very much. Mr. Inwood just asked me a question. What will the procedure be from here on in?

Mr. Chairman: This is our last day of sitting this week. Next week we will be hearing more representations on Wednesday.

Mr. Ferraro: Send them an agenda.

Mr. Chairman: Perhaps we can send you an agenda. Sometime thereafter we will be having clause-by-clause discussion. At the moment, I cannot say for certain when we will finish that, but we are trying our best, working through lunch hours.

Mr. Somerville: Thank you very much.

Mr. Ashe: It looks like post-election, to answer your question.

Mr. Chairman: No, it does not look like that to the chairman.

Mr. Ashe: Do you want to bet? I do not mean when we deal with it; when it is finalized.

Mr. Chairman: If you want to defeat the government in the House, that is one thing.

The next witnesses are members of the Institute of Chartered Accountants of Ontario. Perhaps you could come forward and take seats. The members of the committee received a brief last week from the ICAO. With us today we have Peter Held, the president of the institute. Mr. Held, I understand you have with you Gene Farley, who is on your left as we face you, chairman of the financial institutions of Deloitte, Haskins and Sells; Eric Johnston, on the far left as we face you, who is a committee member from Clarkson Gordon; and Bob Peck, general counsel to the institute on the right as we face you.

Mr. Held: I might point out that, in addition, we have some members behind us. We have David Wilson, our executive director; Gary Hannaford, our director of technical services; Jim Hyland, our associate director of technical services, and Douglas Derry, who is a member of our council and also a member of the accounting firm of Price Waterhouse.

Mr. Chairman: If any of your other witnesses wish to participate, I suggest they assume seats over here.

Mr. Held: They do not seem to be moving.

Mr. Chairman: I am sorry. My clerk is telling me they cannot sit there.

Mr. Taylor: They are reluctant to fill the New Democratic Party seats.

Mr. Chairman: Mr. Taylor is quite anxious to do so.

Mr. Ashe: Your seat is liable to get burned over there.

Mr. Chairman: In any event, if you wish them to answer questions you can--

Mr. Held: I know those gentlemen very well, and when they wish to participate, they will make it known.

Mr. Chairman: Carry on, Mr. Held.

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

Mr. Held: Thank you very much, Mr. Chairman, for the invitation and opportunity to participate in the formulation of what we think is important and much-needed legislation. We have had a particularly good working relationship with the ministry which we believe has been very productive. The process has been certainly positive and worth while and has resulted in some significant changes to date.

Our process today is that we will divide up and segment the presentation to you. In opening, I would like to say that the proposed legislation, we believe, is much needed and will be helpful to meet the province's needs. We do have a concern that the continuing interest of the public be served and we encourage harmony and co-operation between the province and other jurisdictions, particularly the federal government, in any legislation and changes that will be coming down from them.

I will turn it over to Gene Farley to start, and he will deal with sections 118 and 149 from the brief we have given to you.

Mr. Farley: As preliminary remarks, we see the act as requiring the auditor to perform several important roles with respect to the provincial corporation as defined: first, in adding credibility to the financial statements required under section 119 to be presented to the shareholders annually and, upon request, to the depositors and with respect to the annual filing return of the superintendent required under section 134; second, in assisting the audit committee in the execution of its responsibilities under section 121; third, in reporting under section 149 to the directors and, under certain circumstances, to the superintendent breaches under part IX which come to the auditor's attention in the course of his duties; and fourth, in reporting under section 118 to the directors and, again in certain circumstances, to the superintendent matters of substance which might affect the corporation.

We believe the auditor is well suited to provide an objective assessment and reporting function under the act and, therefore, we generally endorse these roles. However, we do have certain concerns with respect to certain aspects of the legislation as presently drafted. In particular, subsection 118(1) causes us significant concern. We believe this subsection breaks new ground in Ontario and will lead regulators, directors and the public to expect more from an auditor than the auditor can provide. There may well be an expectation gap in that regard.

As noted in our written submission, legislation related to reporting by auditors must satisfy three requirements to assist the regulator and prove workable from the auditor's point of view: first, the scope of the auditor's duty should be clear, i.e., if the legislation imposes a duty to investigate, express an opinion or report something that would not fall within the ordinary course of the auditor's duty, we believe the legislation should so state; second, the standards or criteria that the auditor is to apply should be explicitly stated; and third, the auditor should have the training to do what is required under the legislation.

In our view, clauses 118(1)(c) and (d) do not meet those requirements. They require the auditor to have a working knowledge of the provisions of and what constitute contraventions of the Criminal Code and, indeed, any other legislation that may affect the corporation's ability to carry on and transact business. We see this as an open-ended requirement and probably too broad to be workable.

As noted in our written submission with respect to clauses 118(1)(c) and (d), the auditor is, in effect, required to be investigator, judge and jury in an area in which he is not trained. We believe that is somewhat unreasonable. We also noted in our submission that materiality is not considered in respect of those clauses. As a result, there is the possibility of extensive reporting of matters which are relatively insignificant in the overall.

For the above reasons, we feel strongly that clauses 118(1)(c) and (d) should be deleted, and we believe that if clause 118(1)(a) works as we believe is intended, these latter two clauses are not needed.

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On an overall basis, in looking at subsection 118(1), it requires the auditor to form an opinion on the matters set out in the clauses. This also causes us some concern. First, with respect to contraventions of the law, those trained in the law usually will express no more than a view that there appears to have been a contravention of a statute. The opinion is the responsibility of the courts. Therefore, we believe it unreasonable to require the auditor who is not specifically trained in the law to form an opinion in that regard.

Second, with respect to changes in circumstances that might lead to material adverse effects on the financial position of the corporation, we see the auditor as having difficulty in giving an opinion on possible future results. We understand that the Ministry of Financial Institutions, in discussions with its people, would see the auditor as being expected only to exercise prudent judgement in dealing with this subsection. We believe the requirement to form an opinion on the matter cited in the subsection requires more of the auditor than the prudent person could provide.

Naturally, we are concerned that on testing of that provision in the courts, should that happen, the subsection might well be interpreted quite differently than was intended. For that reason, we submitted on page 3 of our written submission to you a rewording for this subsection.

On subsequent reflection, we believe a further change would improve the subsection and we recommend a further revision for clause 118(1)(a) to read along the following lines: "There has been a change in the circumstances of the corporation that might reasonably be expected to materially and adversely affect the financial position of the corporation."

I have copies of that revision available for the members of the committee if they would like them.

Mr. Held: I will deal with the next section of our submission, i.e., section 1, the definition of "accountant." I would like to start off by saying that we favour and support the thrust of Bill 116 towards encouraging reciprocity. As a matter of fact, in Ontario we do practise and have reciprocity.

The province has regulatory legislation in the form of the Public Accountancy Act and, therefore, we feel that financial statements should be reported on by persons who could qualify as public accountants in Ontario as would any resident of Ontario. The auditors of extraprovincial corporations may not meet the Ontario standards that regulate reporting, and we feel that the standards should be met. Accordingly, we suggest that the definition of the word "accountant" should be "a person who is licensed under the Public Accountancy Act."

I will pass it on to Eric Johnston, who will deal with sections 119, 115 and 116.

Mr. Johnston: Our basic concern with section 119 is that, as it is drafted at present, it will require the distribution to shareholders and to depositors on request of more financial statements than in our judgement are likely to be of any use and more financial statements than are required to be distributed, for example, by the Ontario Business Corporations Act and by any other legislation of which I am aware.

In our opinion, the distribution of an excessive volume of financial statements will, in most instances, serve no other purpose than to confuse the shareholder or the depositor. Clearly, a shareholder or depositor should be entitled to receive sufficient financial information to permit him to make a reasoned judgement on the security of his investment. In our judgement, consolidated financial statements, when prepared in accordance with generally accepted accounting principles, fully meet that test.

Such consolidated statements bring together the assets and the liabilities of the parent company as well as the assets and liabilities of all subsidiary entities over which the corporation has control. They provide a complete view, in our judgement, of the assets that are available to the shareholders and to the depositors to cover their investment, in the same way as if the corporation had not carried on any portion of its business through a subsidiary but rather had opted to use a one-entity approach.

Incidentally, to the extent the corporation directly or through subsidiaries is carrying on two or more unrelated businesses through more different, significant lines of business activities, generally accepted accounting principles would require that relevant financial information relating to those different segments be disclosed. If a corporation is carrying on, say, its financial intermediary function directly and its real estate brokerage function through a subsidiary company, the operating results, the total assets and certain other basic information relating to those different segments would be disclosed in notes to the financial statements and there is no need for separate statements of the subsidiaries to be provided to shareholders or to depositors.

In sum, it has been long established that consolidated financial statements best meet the needs of shareholders, depositors and of others, and to require other financial statements as well to be distributed to shareholders and to be made available in the volume that is anticipated in the act, is, in my judgement at least, an excessive requirement and somewhat retrogressive.

We recognize, however, that there may be some who have a more professional, analytical approach to the financial affairs of the corporation. For them we suggest that, on request, it might be provided that unconsolidated financial statements of the parent company be made available and perhaps statements of subsidiaries that represent 10 per cent or more of the assets of the company and its subsidiaries on a consolidated basis.

As to section 115, and specifically subsection (1) thereof, we believe an auditor should be both an accountant and independent. As drafted, section 115 would permit an accountant to be an auditor, even though he is not independent and, perhaps worse, anyone who is independent to be an auditor, even though he is not an accountant. We suggest that this could not possibly have been the intent of those who drafted the legislation. I think that the

simple substitution of the word "and" for the word "or," as set out in our submission, would cure this deficiency.

As to section 116, we do not believe that the auditor of all subsidiaries need be the same as the auditor of the parent corporation. The handbook of the Canadian Institute of Chartered Accountants provides quite explicit standards when there are different auditors and when the auditor of the parent company is relying on the work of the auditor of subsidiaries. Thus, standards are in place, and have been for the last two or three or four years, which permit a parent corporation auditor to satisfy himself as to the appropriateness of the financial statements of subsidiaries by reference to the auditors and management of those subsidiary companies in the same way as if he were the auditor himself.

In our view, the requirement to have a single auditor would be somewhat restrictive of competition among auditors and, in addition, it could mean, for example, that a large national firm of auditors could demand that a subsidiary company of their client located perhaps in some smaller jurisdiction and audited by a practitioner in that smaller jurisdiction would have to give up the audit. We fail to see the necessity for that and we think it is a bit unreasonable and unfair to that other practising member.

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Mr. Held: Before we go on, we were concerned with time and therefore we are proceeding without stopping and giving you the opportunity to ask questions. If the preference of the committee is to ask at the end of each segment, although we are a little late for that, we have one more segment to go.

Mr. Chairman: I think you should carry on and we will entertain questions later.

Mr. Farley: Perhaps I may just close off, then, on three other sections on which we have some minor observations. I will try to be brief.

Section 149, I guess, does relate to some extent to section 118. It is in part IX, of course, in the conflict-of-interest section. That requires a reporting by the auditor of breaches under that part that come to his attention. We have no problem with that reporting, so long as it is restricted to breaches that come to our attention in the normal course.

We are concerned that without those words in that section, it may be implied that we should make a specific search for breaches under part IX and we would like some clarity in the submissions. If it were to include the words we include in our submission, it would give recognition to reporting breaches that come to our attention in the course of our duties as auditors. I think that understanding conforms with the ministry's view of the way that section should be applied.

In terms of subsection 150(2), we noted that a literal interpretation of that subsection could limit the advice that may be given by the auditor to the corporation. Our main concern centres around the inclusion of the words "or other transaction" at the end of line 3.

We believe the intent of the subsection is to bar restricted parties from advising the corporation on investment-type transactions in which they have an interest. Accordingly, we suggest some words might be changed in that

subsection. For instance, if the words "in an investment or other transaction" were withdrawn and the words "in the acquisition or disposition of real estate, securities or similar investments" substituted, that would alleviate our concern and, we think, address the issue intended by that subsection.

In terms of subsection 203(3) which requires an order issued by the director, which requires corporations to use current appraised values for real estate, loans or investments in the calculations for purposes of the act--that would be a special order given by the director--that subsection requires this be noted in the financial statements in the year the order is made. There is a possibility that orders of minor significance in relation to the corporation's overall operation and financial position would therefore have to be disclosed. As a result, we would see merit in requiring that that disclosure be made only where the director specifically requests it. In other words, we would like to see the director have the option of requesting a disclosure, rather than requiring it in all cases.

In our appendix, there are a number of sections on which we had concerns and they were discussed with the ministry. They are covered in the motions and they certainly satisfy our concerns relative to those sections, so I do not think there is any need to touch on those.

Mr. Chairman: Their proposed amendments satisfy you in all these cases?

Mr. Farley: That is right.

Mr. Chairman: I am thankful to hear it.

Mr. Ashe: Were there very many that fell into that latter category, where you had a concern and the appropriate amendment takes care of it?

Mr. Farley: There are nine cited in the appendix. We had a lot of discussion around them and some of those changes, I think, correct a number of sections that were of concern to us. I do not have a full count but it is something in excess of nine.

Mr. Ashe: But it was just these.

Mr. Farley: Yes.

Mr. Offer: The ministry will, of course, be looking very closely at the submission you have made and at the particularity with which you have zeroed in with respect to some of the sections that are of paramount concern to yourselves. I would like to indicate that with respect to clause 118(1)(c) we have been impressed with your argument and will be moving to strike that from section 118 as it now is presented. Of course, we will be looking at your proposed wording for clauses (a) and (b). I just want to indicate that to you at this particular juncture of the hearings.

Mr. Farley: That is clause 118(1)(c), but not (d)?

Mr. Offer: No, but we will be looking at clause 118(1)(d) as well. We are prepared to delete clause 118(1)(c).

Mr. McFadden: My question as it turned out dealt with section 118 so we are thinking along the same lines. I do not know if we are great minds or not.

Since the ministry is prepared to look at clause 118(1)(c), there is not much that needs to be said except I find it a remarkable provision that you would be expected to offer an opinion as to a contravention of the Criminal Code. Obviously, the answer has been given. I also think clause 118(1)(d) is pretty sweeping in the sense that if you took out just (c) and (d) became (c), you would almost be in the same boat because then you would be giving it if there had been a contravention of any other law and that could include the Criminal Code again.

I suggest changing clauses 118(1)(c) and (d) because the operation of (d) would catch it all over again. You would have to look at both of them to get rid of this problem.

Mr. Offer: I appreciate the comment with respect to clause 118(1)(c.) It is the intention to actually delete that and with respect to clause (d), it is with respect to focusing in on that particular clause with a view to narrowing its application.

Mr. McFadden: We will have to see how that works out later. The only other one I had was section 115, the sort of bizarre wording. There is such legal interpretation here that somehow everybody is excluded in some way; at least accountants may be excluded. In the interpretation of the institute, does that seem to have some strength to it or have you not addressed that particular problem? I have just read through it and I am not sure one way or another myself. I wonder if you would respond to that. It just seems like an interpretation problem.

Ms. Parrish: I think you are quite right; it is an interpretation problem. Certainly, what we intend is that in order to be an auditor you have to be both independent and an auditor; you have to be both things. What I would propose is that I raise this as a drafting issue with our legislative draftsman, Mr. Revell. I do not think there is any dispute about what we want. The question is making the drafting do what we want. I think it does do what we want now, but we should leave that to better heads than mine, which would be our legislative counsel.

Mr. Peck: I am here today largely because of clause 118(1)(c) and the Criminal Code and (d) and I would like to comment on this as well. If what you want to say in section 115, reading at subsection 115(1), is "not an accountant, or if an accountant, the person is not independent of," we think that is what you want to say butwWe do not agree that is what it says. We have suggested the simple "or" to make it disjunctive so you do not have to qualify on both. It may be that "or" is not the appropriate solution for the legislative draftsman. It may be those words "or if an accountant, the person is not independent". That is the kind of precision we are looking for.

To go back to clause 118(1)(d), you have said that you would look at that with a view to narrowing in or focusing on it. We have looked at clause 118(1)(a) at some length and we think it imposes on auditors a lot of work and new scope. The institute has tried to give some precision to that rather than "might materially...affect...the corporation" with the words "reasonably be expected to" because we can see "might" with a big shopping list going to the directors every time there is a change in the chief financial officer or something like that.

Again, on clause 118(1)(d), we have the same concern with the shopping list. There was a suggestion raised at one of the meetings that the ministry would outline the acts and the contravention of the acts that it is concerned

with--the Securities Act, the Income Tax Act--and specific breaches. That would give the auditors the kind of precision we think is fair, so that they know what they are to report on and deal with. That is why we have made those submissions.

Mr. McFadden: I am correct then in assuming with regard to section 115 that there is a meeting of minds on the purpose; the problem is just the English language at this moment?

Interjection: That is right.

Ms. Parrish: Absolutely.

Mr. McFadden: How is the French?

Ms. Parrish: I am afraid I cannot be more helpful in French than I am in English.

Mr. McFadden: We had better check both or we could wind up with a different law depending which language we are in. Those are all the questions I had.

Mr. Chairman: Any other questions?

Mr. Held: Mr. Chairman, we have appreciated very much the opportunity to come before you and explain our brief and our position.

Mr. Chairman: We appreciate your bringing your concerns to the committee because obviously you will have a large role in the policing function, if you will, and it is important that it be defined very carefully.

The next meeting, the clerk is indicating, is Sunday at the airport or more specifically, after you have read your briefing material, 10 p.m. in the Dupont Plaza Hotel on Sunday night, when we will go over things again.

Mr. Ashe: That has a time restriction of 2 a.m., I understand.

Mr. Chairman: Yes, at 2 a.m. you can go out and go on the town.

Mr. Ashe: Go out and party and then start again at eight in the morning through until midnight.

Mr. Chairman: Meeting adjourned.

The committee adjourned at 4:11 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

LOAN AND TRUST CORPORATIONS ACT

WEDNESDAY, APRIL 8, 1987

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.

Staff:
Evans, C. A., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Bar Association--Ontario:
Bliss, H. J., President-Elect; with Bliss and Associates
Moore, P. M., with Tory, Tory, DesLauriers and Binnington
Waite, P. J., Section Administrator

From the Ministry of Financial Institutions:
Parrish, C., Director, Policy and Planning Branch
Wilbee, J. J., Superintendent of Deposit Institutions

From the Canadian Life and Health Insurance Association Inc.:
Devlin, G. M., President
Kent, D., Vice-President and Senior Counsel
Morson, A. E., Vice-Chairman, Crown Life Insurance Co.

From the Ontario Association Appraisal Institute of Canada:
North, L. W., President, Lincoln North and Co. Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, April 8, 1987

The committee met at 10:07 a.m. in committee room 1.

LOAN AND TRUST CORPORATIONS ACT

Consideration of Bill 116, An Act to revise the Loan and Trust Corporations Act.

Mr. Chairman: Let us get started. Welcome back, committee. We will work just as hard here, I am afraid, as we worked in the United States. The public should be aware that when we were in Washington on Monday it was snowing, even though Mr. Foulds tells us it was 22 Celsius in Thunder Bay, so the whole world is upside down.

This morning we are back again dealing with Bill 116 and we have three submissions to hear, following which we will go in camera over lunch hour to look at the draft budget recommendation. At two o'clock we will hear a fourth submission.

The first presentation is from the Canadian Bar Association--Ontario, which presented us a while back with exhibit 5. If you do not have that exhibit, we have a couple of extra copies here, which you might want to have with you during the presentation. I see Peter Waite, section administrator of the Canadian Bar Association, and Harvey Bliss, barrister and solicitor, and president-elect. Congratulations. I should inform the committee that I articled for Mr. Bliss and that is how I got where I am today.

Mr. Foulds: We will not hold that against him.

Mr. Ashe: We definitely will not give you a lesser mark on that account.

Mr. Foulds: He looks younger than you.

Mr. Chairman: That is true. He does not look any older than when I articled for him in 1967. I do not know how he does it.

Perhaps the third gentleman can identify himself.

Mr. Moore: Paul Moore.

Mr. Chairman: Gentlemen, the floor is yours.

CANADIAN BAR ASSOCIATION--ONTARIO

Mr. Bliss: Mr. Chairman and members of the committee, we have met many of you at the joint receptions the bar association and members of the Legislature hold. As you know, the Canadian Bar Association--Ontario has an active legislation program, both reactive and proactive. It is reactive in the sense that very often we are consulted by your departmental officials to make submissions; sometimes we initiate them ourselves.

We attempt to represent all points of view. We represent crown attorneys and defence attorneys, labour lawyers and management lawyers, debtors and creditors, and our submissions are generally welcomed and respected as being impartial and objective.

We struck a large and active special committee tc work with your departmental officials on the bill to amend the Loan and Trust Corporations Act, and those very experienced lawyers spent hundreds and thousands of hours of volunteer time.

With us today is Paul Moore. Je vous présente M. Paul Moore, le président de notre comité. Paul will address you for 15 to 20 minutes and then respond to your questions.

Mr. Moore: Thank you, Mr. President-Elect. My name is Paul Moore. I am a partner with Tory, Tory, DesLauriers and Binnington in Toronto. As chairman of the select committee to study Bill 116, I and my committee have been involved with this matter for three years, so the written submission which was submitted a couple of weeks ago is really the culmination of three years' work. During that time there have been extensive consultations with government officials, the Trust Companies Association of Canada and other members of the bar.

I would just like to mention a few names because, during the last three months or maybe even less--it was certainly subsequent to the first meeting of your committee when it was suggested that perhaps there should be some direct consultation on the draft on a clause-by-clause basis--there were extensive meetings with Bryan Davies, Jim Wilbee, Colleen Parrish, Don Reid, Howard Roach and other members of the Ministry of Financial Institutions and in conjunction with representatives from the bar and the Trust Companies Association of Canada.

Our written submission, in draft form, was used as a working paper and many of the amendments which have been proposed in motions of the Minister of Financial Institutions (Mr. Kwinter) and indeed are still to be proposed--I am aware of some--have resulted from those consultations, so I want to report to you today that we feel we have been given a full and fair hearing by ministry officials.

If the motions which have been proposed and which we understand are yet to be proposed are adopted by this committee, and if the eight matters which I will address shortly are addressed by this committee, the new Loan and Trust Corporations Act which will result from Bill 116 will be a significant advance over the existing Loan and Trust Corporations Act of Ontario.

I would like to limit my remarks to eight matters of importance which are dealt with in the submission. These matters are: (1) the powers of the superintendent and the director versus the powers of the Lieutenant Governor in Council; (2) respect for the rule of law; (3) the right to a hearing and appeal; (4) retention of the trust concept for deposits with trust companies; (5) prohibited investments made unknowingly; (6) a definition of "deposit"; (7) an underwriting exemption for section 63; and, finally, (8) directors' liability.

Briefly addressing each of these points: (1) the powers of the superintendent and director versus the powers of the Lieutenant Governor in Council. The section references are 199, 144 and 168. Matters to be decided in these sections are matters which should be decided by the superintendent or the director and not by the Lieutenant Governor in Council. There are several reasons for this.

The first reason is workability and access. It does not make much sense to have discretion lodged in the Lieutenant Governor in Council, which means the cabinet, if the procedures for getting to the cabinet are cumbersome; so workability and access.

The second thing is that in this day and age the Legislature should be conscious of what time should be spent by cabinet. Some of these matters should not be taken up by cabinet because of the question of time.

Third is the question of a right to a hearing and the right to an appeal. For the act to be workable, as many as possible of the discretionary matters that arise once a corporation has been registered--and I emphasize that--should be decided by officials of first instance, such as the director and the superintendent. This works very well on the securities side with the Ontario Securities Commission which is a body that can be approached.

I will be mentioning section 199 a little later. At first blush, with respect to section 199, which includes the power to go in and seize a trust company, people may be surprised at our suggestion that this should be dealt with in the first instance by the superintendent or the director. But the questions that are raised in section 199 and that trigger that section are questions of fact or mixed fact in law. They would best be dealt with by the director or the superintendent as a finder of fact, with evidence subject to the discipline of a quasi-judicial process and not in camera without the right of a hearing or an appeal in cabinet.

The second point is respect for the rule of law. The principle of the rule of law, which underlies all our legislation in the western democracies, is that the law be certain and that knowledge of the law be available to all citizens.

Clauses 190(1)(b) and (e), as well as paragraph 199(1)6, allow the director to decide that something is not quite right although it is not contrary to the law. He is allowed to spring into action and order anybody or any registered corporation, any citizen of Ontario or any person in Ontario, to do any course of action. This, in effect, allows the director to create law. By deciding that any act or course of conduct, although legal at the time in question, may in the future result in a state of affairs that would result in noncompliance with the act or regulations, may be prejudicial or may adversely affect the interests of depositors, he can spring into action.

In our submission on these points, we refer especially to section 220. We suggest that the regulation-making power is the way to deal with this question. If the two clauses are added to the regulation-making power that if, in the future, courses of conduct arise or certain actions take place, cabinet can quickly pass an order in council which is then law. If the conduct or the action complained of then continues one more day, the director can spring into action, but the principle of the rule of law would then be respected. This is, I hope, a mechanical suggestion by us to keep inviolate the principle of the rule of law.

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The third point is the right to a hearing and appeal. The section reference here is section 199, and I also refer you to subsections 190(2) and 190(3) as provisions that you may wish to adopt for section 199 if, in fact, our suggestion on section 199 is followed.

Section 7 of the Canadian Charter of Rights and Freedoms does not currently protect the right to the enjoyment of property. However, on November 27, 1986, the Legislature of Ontario enacted the following resolution, which we take now to be the official policy of Ontario. The resolution says:

"That this House authorizes that a proclamation be issued by the Governor General under the Great Seal of Canada amending section 7 of the Canadian Charter of Rights and Freedoms to read as follows:

"7. Everyone has the right to life, liberty, security of the person and enjoyment of property and the right not to be deprived thereof except in accordance with the principles of fundamental justice, and urges that the Senate and House of Commons and the legislative assemblies of the other provinces do likewise."

In our view, section 199 of Bill 116 would be contrary to section 7 of the Canadian Charter of Rights and Freedoms if that section were amended in accordance with the policy of Ontario as expressed in the resolution I just read. The reason for that is that section 199 provides for the deprivation of the enjoyment of property without providing for an opportunity to be heard.

Following our earlier suggestion of having the director or the superintendent responsible for these matters would result in a right to a hearing and an appeal. The legitimate concern of the need for speed, to move quickly when a Greymac or another situation is upon the province, can be dealt with by adapting the provisions of subsections 190(2) and 190(3), which would allow for speedy action and a hearing later. That would still preserve the principles that would be embodied in the Charter of Rights and Freedoms if it is amended as Ontario has urged.

Point 4 is the retention of the trust concept for deposits with trust companies. The section references are subsection 10(11), section 29 and section 153. In our written submission, we have recommended that the trust concept for deposits with trust companies be abolished. The concept is misleading. If this were not being recorded, I would say it was a fraud on the public, but delete that remark.

Mr. Ashe: It is there now.

Mr. Moore: If a trust company becomes a loan corporation under the provisions of Bill 116, deposits would cease to be trust deposits. In addition, although the deposits are stated to be in trust, they are chargeable by a trust corporation in certain circumstances, such as to the Canada Deposit Insurance Corp. for insurance.

Why is the trust concept fair? The answer is that it is a means for providing security to depositors, but this can be achieved by declaring in the bill that depositors have a preferred status in the case of bankruptcy. The recent federal proposals, New Directions for the Financial Sector, proposed doing away with the trust concept for deposits in federal trust companies. There are other complications that arise because of the trust concept, certain inadvertent tax consequences and concerns, but they really should not be of concern to this committee. The trust concept for deposits is antiquated and misleading.

The fifth point concerns prohibited investments made unknowingly. The section reference is section 140. In effect, section 140 prohibits certain investments in restricted parties. In the bill, the class of restricted

parties has been greatly extended. It now covers all employees of a corporation. In section 191 of the existing Loan and Trust Corporations Act of Ontario and section 68.4 of its federal counterpart, the Trust Companies Act of Canada, the prohibition is against investments knowingly made. The reason for that is that the wrong is favouritism. How can you favour somebody if you do not even realize the person is supposed to be favoured?

Section 140 should be made subject to the principle of mens rea--now mens rea is a criminal concept--but the civil equivalent, which requires knowledge that the action complained of is wrong. In this instance, the wrong is knowingly favouring a class of persons over the general public.

The sixth point is a definition of "deposit." This point is somewhat technical, but the committee should deal with it on a clause-by-clause basis. There is a definition of "deposit" in the act. It is only relevant once there has been a determination that we are dealing with a corporation which is a registered trust company or a registered loan corporation. The term "corporation" does not apply to any other body corporate. However, the definition of "loan corporation" itself uses the term "deposit" in another sense which is not defined.

The problem we have wrestled with in practice under the existing law would be compounded under Bill 116, because no one knows what a deposit is. Obviously, the word "deposit" is used in a narrow sense, but tied in with this problem is section 4.

Section 4 is a holdover from the present law. Section 4 provides an exemption, a necessary exemption under the present law, but it is not necessary under Bill 116, because the change in definition now makes it clear that the corporations which are supposedly the bodies corporate, which are supposedly excepted from the act in section 4, are not even caught. Why have an exemption to exempt somebody who is not even caught?

The problem with section 4 is that it raises the implication that "deposit" may mean any kind of borrowing, whether by bond, debenture or note. But if that is the case, then almost every company that raises money in the capital markets by issuing bonds, debentures or other evidences of indebtedness, and subsequently invests that money in any shares, such as in a subsidiary company or a mortgage or any asset, would be caught as a loan corporation.

That is obviously not the intention in the act, but this is a serious technical problem, in our view, which should be addressed.

Point 7 is an underwriting exemption to section 63. The act now says that no one person can own more than 10 per cent of the shares of any class or the shares of any series. The way these capital markets of ours operate is that a new series of preferred shares may be created. It is all sold to one person, the underwriter, who turns around and distributes those shares to the public. This section 63 needs an underwriting exemption.

The Combines Investigation Act has an underwriting exemption. Every statute should have an underwriting exemption. In the past, in other statutes, it may well be that the problem has been ignored, but it should be addressed. There is no policy issue involved in it.

The eighth and final point is directors' liability. The reference is section 105, which could be read with section 108 because 108 is relevant to

section 105. The point here is that it is in the interest of the province to attract the best possible candidates as directors. Therefore, the provisions relating to directors' liability, though strict, should be fair and reasonable.

We recommend three things:

First, that there be a defence of due diligence. That is a Securities Act concept, and I refer you, by way of a model, to clause 126(3)(c) of the Securities Act. That provision says that if a director acts honestly and in good faith, makes reasonable inquiries and has no reasonable grounds to believe, and indeed does not believe, that something is wrong, he is not liable.

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Second, directors should be permitted to rely on experts, provided they exercise due diligence in so relying. The same reference in the Securities Act is relevant, clause 126(3)(c). It is not enough to rely on an expert; there has to be due inquiry and reasonable grounds for believing the person is entitled to rely on an expert. To hold the director liable because he relied on financial statements that had been audited and had gone through the audit committee, to have strict liability, does not accomplish anything other than to drive away anybody in his right mind from acting as a director of a trust company. I can see this as a very severe limitation in attracting the kind of person you want to be a director.

Third, there should be a limitation period. In the Securities Act and other statutes, two years seem to be the period, so we have recommended a two-year limitation period.

I am glad to see that you all listened diligently. Some of you took notes, but my remarks are in writing. I will leave this copy, which has the section references and the other things I have referred to, for the members of the committee. I understand you do want to ask questions.

Mr. Chairman: Thank you. That was a very well set out presentation, and I am sure it evoked some questions.

Mr. Ashe: Leave the questions to the lawyers.

Mr. Chairman: Mr. Taylor falls in that category, and I will let him start off.

Mr. Taylor: There has been an ongoing dialogue in regard to this legislation for some time. I am trying to get at what the problem is between the staff and the submission we have heard. What I heard from you sounds eminently reasonable to me, and my question is also of the chair.

I want to know whether there are amendments proposed by the ministry or the minister that would accommodate the submission made today. Mr. Chairman, maybe you could help me on that. Second, if there is objection on the part of the ministry to the points made, I would like to know the reason for those objections.

Mr. Chairman: Correct me if I am wrong, but I understand these submissions were made with their awareness of the ministry's rather massive amendments.

Mr. Moore: Yes, that is correct.

Mr. Ashe: There is clarity on that, but it was also indicated to us when the redrafted bill was given to us a week or so ago, whenever it was, that the ministry had further amendments that were not already incorporated here. Is the Canadian Bar Association aware of those amendments, which we do not even have yet?

Mr. Moore: I was coming to that. Yes, we are. Let me tell you the process. We put together our brief and, in addition to the consultation meetings we had, the ministry responded on a point-by-point basis to our points.

I must say that we are not satisfied with all the answers. There are points we made that we feel should have been dealt with otherwise, but we recognize that we had a full and fair hearing. We are satisfied that, for the most part, the ministry officials at least understood the points we were making. We recognize that we are dealing with professionals, people who are lawyers and legislative draftspersons. Although we do not necessarily agree with their resolution of our points, we feel we have had a fair hearing, and we feel the ministry officials might well deal with some of those points as you go through your clause-by-clause consideration.

Some of the points we raised, such as the question of the discretion of the Lieutenant Governor in Council, ministry officials felt were policy matters. They felt that the point, to change the existing practice where many matters go to the Lieutenant Governor in Council and, indeed, to put forth a recommendation that is contrary to the Dupré commission recommendation, should really be made by us to you because you are a body that should decide some of these questions on policy matters.

If you look at the eight points I raised, the first point, which was the powers of the superintendent and director, is policy. Respect for the rule of law is policy. The right of a hearing and appeal is policy. Retention of the trust concept is really policy, because it is there in the existing law. We are saying that it should come out, that it is inaccurate, but we are asking for a change that is not there now. We have pointed to precedent at the federal level, but I think it is something this committee should address.

We feel the question of prohibited investments made unknowingly is a policy advance that has been made and that should be retrenched back to the existing position, but again that is policy. The question of a definition of "deposit" is perhaps the only matter that is not policy. The reaction we got from ministry officials was, "Yes, but the industry and other people are comfortable with that exemption in section 4 and they really do not want us to take it away."

We are saying yes, but it is going to have an unforeseen consequence. It is going to raise the implication that the definition of "deposit" means something else. We feel this is a serious enough point that we want to draw it to your attention. The underwriting exemption is something that is under consideration by the ministry. We wanted to mention it very briefly here. The question of directors' liability is again a policy point. We understand, from talking with ministry officials, that they may favour some of those suggestions.

I might add that I made quite certain that a copy of my remarks were delivered to Ms. Parrish a couple of days ago. They are very much aware of

what we are saying, so I am sure they will be in a position to respond to it as well, because we have had a full and fair consultation process.

Mr. Taylor: Then, if there has not been any movement on the part of staff because of policy, could we get some indication on whether staff would be opposed?

Mr. Chairman: I think that is why we are here. It is obvious they are. Ms. Parrish is prepared to speak.

Mr. Taylor: No, you miss my point. Staff may not want to stick their necks out because it is policy, but may feel from a personal point of view that they are not opposed. In other words, they do not want to usurp the function of another body. I want to make that clear.

What I am really seeking to know is whether staff are vehemently opposed to an amendment that would incorporate the submissions. I might say I listened very carefully to these submissions. A couple of us here have served for some years in cabinet and we appreciate, maybe more realistically, the merits of the proposition, for example, that the superintendent rather the cabinet should deal with some of these matters.

I would appreciate that type of response.

Mr. Chairman: I think we know where we stand with regard to the Canadian Bar Association. We are dealing with their time. Are you asking--

Mr. Taylor: But we have to make the decisions.

Mr. Chairman: I will ask the witnesses whether they wish to forgo part of their time now so that we can hear the ministry's response to Mr. Taylor's question.

Mr. Moore: I think this is your time; it is not our time. I really think it might be helpful and I have no objection to it. As far as I am concerned, we are here to answer your questions, to help you come to the decision as to where you want to go. I must say Mr. Taylor's remarks make sense to me; it would help if the ministry officials are willing to talk at this time.

Mr. Chairman: Ms. Parrish, do you wish to speak to these matters?

Ms. Parrish: I will speak very briefly to some of the drafting issues. The ministry has already, from a policy perspective, agreed that there should be an underwriting exemption. What we are really struggling with now is how to draft it so that what you get is a genuine underwriting exemption and not a loophole in which you can disguise beneficial interests by putting them as securities dealers. We do not have a policy opposition and, in fact, I have received drafting instructions to do that. We are just trying to struggle with the right tight motion to do that.

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In addition, I have instructions to put in a two-year limitation period. After we read dutifully through the Limitations Act, we did come to the conclusion that it would be difficult to know what these were and, therefore, a two-year limitation period should be put into sections 108 and 105. That was the same suggestion that came from the Trust Companies Association of Canada.

On those two issues, we are simply proceeding to make proposals that we hope will find the approval of the committee as well as the ministry. That is a fairly quick answer on those ones.

Mr. Moore characterized very well our position on regulatory discretion. The standing committee that reviewed the white paper was very strong in saying to the ministry that there should be a limit on regulatory discretion, and the Dupré task force indicated as well that certain levels of approval should be at the cabinet level and not at the regulatory level.

That is why we felt, having been given such specific instructions on those very issues, that it was not appropriate for the ministry to come forward and say, "Despite what we have been told, we are not going to do that." I would just say, from one perspective, that the ministry staff might see a distinction between section 199, which is possession and control of a company, and all the other areas of discretion. It might very well be that section 199, being a unique and serious power, could be viewed in a somewhat different light than some of the other levels of discretion in a regulator.

In terms of the point that was made about deposits, from a technical viewpoint, Mr. Moore has reported essentially what my conversation was about this issue. From a drafting perspective, I think the exemption does create some ambiguity as to exactly what we mean. On the other hand, it is true that many people in the industry are comfortable with this exemption which has existed for a long time, and they want this specific exemption.

I do not disagree with the legal impact of what the CBAO has proposed. I point out only that many people are very comfortable with this specific exemption and it gives them comfort. They feel it gives them greater clarity. To some degree, it is one of these debates where you get two lawyers and they can have five opinions.

Mr. Ashe: At least.

Ms. Parrish: At least. The section 199 issue is, indeed, a very serious policy issue which the staff felt was best left in the hands of the legislators.

There are two points the ministry might make on the retention of the trust concept. One is that the trust concept has not been abolished at the federal level. There has been a proposal that it might do this, but that is all. So if Ontario were to abolish the trust concept, it would abolish the trust concept and the federal government would still have the trust concept. We do not know for sure that its policy proposal will come to fruition.

Mr. Taylor: And then we have the problem with the bankers reacting to federal legislation in terms of an amendment.

Ms. Parrish: Yes.

Mr. Moore: On that point, though, without getting into it now, I am sure it could be dealt with in some way, but there would be a concern about your enacting legislation that affected bankruptcy. That is something you would have to look at, but I am not satisfied that you could not provide security another way. You could provide for a statutory lien or some other mechanism without mentioning bankruptcy. You can earmark and set aside or protect assets without getting into the bankruptcy question; provide just for a lien or a security interest. We do that in other provincial legislation.

Mr. Taylor: Certainly, the concept of trust funds has become more of a legal fiction than anything else.

Mr. Moore: It is interesting, and it certainly is a legal fiction. If you look at the leading Canadian textbook on trusts by Waters, at page 73 or page 78 of the latest edition, he looks at the federal statute and he looks at the concept of trusts. He says that a guaranteed investment certificate is more akin to a debtor-creditor situation and is not really a trust concept at all, because the company can keep the profits made on the investment. Although the investments are earmarked and set aside, the company can deal with them and change them and trade them around, and the only thing that is owing is interest and return of the principal. So it is not what the law recognizes as a clear trust concept; it is a very fuzzy concept.

More important, the new bill will allow deposits which are held in trust all of a sudden to be not held in trust if the trust company becomes a loan corporation. Those deposits are chargeable by the company to secure its own credit with the Canada Deposit Insurance Corp. So what the public thinks are moneys held in trust really are not quite what the public thinks they are.

Members of the bar, certainly my submitters, were very fussed by this, and we thought maybe we were making a mountain out of a molehill, but we have had problems on the tax side as well. The Income Tax Act says an interest in a trust is foreign property, yet most registered retirement savings plans, if they are self-directed, have nothing but guaranteed investment certificates in them. If that is foreign property, a lot of people are in troubl. So there are inadvertent worries that arise.

I think we in the legal community have come to the conclusion it cannot be foreign property and, therefore, it cannot be an interest in a trust, but these are the unnecessary concerns we go through just because the trust concept has been retained. It really does not fit in the modern system. The reason for it is to provide security to depositors, and that can be provided in other ways.

You are quite right, Mr. Taylor, that the Bankruptcy Act--when I mentioned it could be dealt with by providing for preferred status, that would have to be done by saying a security interest or some other mechanism, a lien, and you would have to be satisfied that it would operate in a bankruptcy, that it would be recognized. The bankruptcy law does not change the question of property and civil rights as far as rankings and what not are concerned. It recognizes priorities that could be established at the provincial level.

Mr. Chairman: We started about five minutes late, and so I am going to go at least until 10 to 10. We have three other questioners. Does the committee want to continue to hear from Ms. Parrish?

Mr. Taylor: Yes, please.

Ms. Parrish: To return to the question of deposits, the trust deposit was strongly supported by the Dupré task force as being a desirable instrument and as being consistent with the higher fiduciary responsibilities the trust companies should have.

Although I agree that in some ways there is an element of legal fiction, in many ways the trust deposited is in fact what people think they get. Very few people think they are lending their money to the financial institution. What they think is happening is that the financial institution is keeping it

for them. To some degree, people do have a concept of the trust deposit in their own minds, but this is a complex issue.

On the question of prohibited investments made unknowingly, at a staff level only, I have indicated a level of discomfort with the inclusion of the word "unknowingly." The reason is that it is going to make this section extremely difficult to enforce, and it places very little onus on anybody to inform himself appropriately. What we want in this act is for people to inform themselves appropriately and to guard against self-dealing. We have a serious concern about whether we are going to be able to enforce these provisions.

This is not a criminal statute, where the question of mens rea is an appropriate protection against somebody's civil liberties. What happens if you have a restricted party transaction is that you have to divest. That may cost somebody some money or it may be inconvenient but, after all, the person is not going to go to jail.

Our concern is that if the word "unknowingly" were inserted, you could essentially have a system in which we virtually cannot enforce the prohibition and people have no incentive to inform themselves. They can simply say: "Gee, we did not know. We did not try to find out either." We have some concern about the extent to which that would result in a section which was not enforced and in which people felt they had very little incentive to inform themselves of the circumstances of the transactions.

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I digress briefly from the question of deposit and underwriting exemptions. As I said, the issue of directors' liability was raised by the Trust Companies Association of Canada. The proposal of the bar is somewhat different from that of the trust companies association. The association suggested an exemption simply if there had been reliance on experts or if the directors did not know about certain transactions. The CBAO's suggestion goes a little bit further, in placing an onus to inquire and to do reasonable investigation, than did the trust companies association. However, I think this is a matter of policy, because the design of this bill is to increase directors' liability very substantially.

In terms of the last issue which was raised, the issue of the discretion of regulators to require regulatory action in a situation where there was not an actual violation of the act but there were prejudicial circumstances or circumstances that might possibly lead to an ultimate violation of the act, I think the ministry position is that these powers are needed because of the kinds of institutions we are regulating and the kinds of protection the public expects.

If these sections were gone, the regulators would be in a position where they could do nothing unless there was an actual violation of the act. They would have to sort of sit there and wait for this occasion to happen and then move in, have a hearing and so on. There would be very little ability to take preventive action. When you are dealing with a financial institution, that is what you need to have--preventive action--in order to prevent the company from failing. If we have to wait until a company has failed and then take action, it is not going to be suitable protection for the public.

I should point out that there are procedural safeguards here. There are hearing opportunities and there are appeals. It is not as if the company gets no protection. The regulators have to prove all this; they have to prove that

there is something prejudicial going on here. This kind of discretion, I should point out, was upheld in the Ontario courts in the Canadian Tire case.

Mr. Chairman: Some of the questions are being met most times. I would like to finish this delegation, if possible, by five to 11. Mr. Foulds, very quickly, then Mr. McFadden, even more quickly, and then Mr. Partington.

Mr. Foulds: I have just one comment and one question. The resolution you cited that was passed by the Legislature is, of course, not government policy. It is an expression of opinion by the Legislature and it has not yet been adopted by the government as policy or in any form of legislation.

Mr. Moore: That is recognized. I am not disputing that section 199, as drafted, is legal under the Canadian Charter of Rights and Freedoms. It is only if section 7 of the charter is amended in accordance with that resolution and to the extent that the resolution reflects the policy of the Legislature of Ontario, not the government, and you choose to follow that policy--and the Canadian Bar Association supports that amendment--I think it is incumbent upon you to recognize, and we certainly maintain, that section 199 would be contrary to the charter if that amendment goes through.

Mr. Foulds: But you understand you are arguing a hypothetical case?

Mr. Moore: I think it is not hypothetical. I maintain that the policy of the Legislature of Ontario is reflected in the resolution passed on November 28 and that this committee should be operating in accordance with the policy of the Legislature. That can always be changed. That is not law. I recognize that.

Mr. Chairman: I think the Attorney General's office has suggested there might be some issue as to whether that resolution falls into the requirements of the charter for an amendment.

Mr. McFadden: I have a couple of minor things.

Mr. Chairman: That is right. Have you asked your question yet, Mr. Foulds?

Mr. Foulds: The question was how you would define "unknowingly"? I have a real problem with that concept. I am just a simple boy from northern Ontario and I am not a lawyer, but I have always been told that ignorance is not an excuse.

Mr. Moore: I would like to know specific situations in the past where there was a real problem that was defeated, if you will, because of the question of the burden of proof. If there really is a problem, then I would at least put something in the bill, if it is not already there, to say that the directors have a duty to inquire, to be aware and so forth.

I find it hard to believe that if directors of a major trust company approve a transaction with the parent company or with an indirect company up the chain, and you can find all kinds of corporate charts in the possession of the parties, they are going to be able to maintain they did not realize that XYZ was not the parent company or XYZ was not a 20 per cent shareholder in the company.

Where the problem is going to arise is with spouses of directors, or children of chartered accountants who are acting as the auditors of the

company, or employees, every single employee. We oppose this change too, and so did the Trust Companies Association of Canada, but every single employee, whether or not he has any influence, has been declared a restricted party. I think it is inconceivable that a loan will never be made to an employee by some branch, and both parties will be acting in complete ignorance.

The statute deems the directors to have approved that and makes them absolutely liable for payment--section 105 says they shall pay any amounts paid out--so that it is a very unfair situation. I can see your concern and I am not saying the present law should just be left the way it is. I would be comfortable personally with that because I am not aware of any abuses in the past, but if there is a concern, I would do it by making sure the duties to inquire are there, if they are not there now, as long as it reasonable, so that every director must not approve every single loan of every branch to be satisfied the person is not an employee and things like that.

Mr. Taylor: That is constructive knowledge as well as actual knowledge.

Mr. Moore: In those situations where it would be reasonable.

Mr. McFadden: I have a point of order: On page 4 of your brief, "section 119" should read "section 199" instead.

Mr. Moore: Yes, it should.

Mr. McFadden: That is not a question. That is a point of order I am raising.

Mr. Moore: You are quite right. Thank you for pointing that out. I corrected that in my copy, and in my oral remarks I did say section 199.

Mr. McFadden: On the point you have made with regard to those three sections, you mentioned workability and time taken up by cabinet. The one thing you did not mention, which I take it is somewhat underlined here, is the danger of political factors potentially coming into these decisions as well. I would have to believe that below the surface, that is another factor you have not bulleted.

Mr. Moore: Quite frankly, that was not one of our direct concerns. That may be a concern, that cabinet is a political body and may act politically.

Mr. Ferraro: May?

Mr. Moore: On the question of seizing the assets of a trust company, that is a concern.

Mr. McFadden: I have one final little item on directors' liability. We could go on at some length with your brief, and it is unfortunate we do not have more time. What we have created here is what I describe as absolute liability, which I think is a remarkable standard for anybody to be expected to meet. I do not know who would ever want to be a director of a company with these kinds of things. You would virtually have to have more money than the cumulative assets of the trust company to be sure that you could pay it all out. It just does not make sense.

We are talking about "knowingly" and using all these standards. Your

feeling about due diligence is that you would prefer us to follow the securities legislation. Do you have any other advice besides due diligence, or is it your feeling that due diligence is the best and only test you would like to see in here?

Mr. Moore: Yes, due diligence would do it. The danger is that you can arrive at strict liability by making the test ridiculous, too. I think I would stay with general words, the way the Securities Act does: "reasonable inquiry," without trying to define what that is. Leave that to the courts. Leave that to the instance. I am concerned that many people feel there have been a lot of abuses in the past when there really have not been.

As I say, if you had a company with a bunch of shareholders and there was self-dealing going on and there is a requirement for reasonable inquiry, the director would be dead in the water if he said he did not know. With respect to an employee, I think the court would accept that he had no way of knowing and would just throw it out. It would not be a wrongdoing to deal with a small employee in some branch in one of our centres in Ontario, like Port Arthur.

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Mr. Foulds: Thunder Bay.

Mr. Moore: Thunder Bay, pardon me. Port Arthur is the name of your riding.

Mr. Partington: Just quickly with regard to item 4, I suggest that most people who leave money with trust companies do not even understand the trust concept, let alone believe there is--

Mr. Moore: As a practical matter, many of those guaranteed investment certificates are marketed just like debt securities. My feeling is that the GICs, which are justified under that deposit--and that is where the bulk of the money is--are treated as debt securities by the holders. It is not the same as the passbook.

With the passbook deposit, people who put money into the bank probably think it is a trust concept, and the cases show that they continually try to say it is trust money, but I think it is in the passbook situation that people feel they have a deposit in trust with the trust company, not in the bulk of the deposits, which are in the form of guaranteed investment certificates.

Mr. Partington: I would have thought otherwise. People who leave money with a bank might expect that if there is a loss, they would get it under that general guarantee, but not that those moneys are set aside to be allocated to their debt--

Mr. Moore: That is the informed view, and I think you are right. Most people who know the situation would understand that.

Mr. Chairman: Thank you very much, gentlemen. You have opened up some interesting problems for us that we are going to have to deal with in clause-by-clause consideration.

Good luck, Mr. Bliss, with all your future articling students.

We now have the Canadian Life and Health Insurance Association,

represented this morning by its president Mr. Devlin; Mr. Morson, the vice-chairman of Crown Life; and Mr. Kent, vice-president and senior counsel for the association.

This association initially provided us with a brief, which is exhibit 4. It was distributed to you earlier. You have a supplementary submission that was distributed this morning, which I understand is a summary of the brief.

Mr. Devlin: It is perhaps more a supplementary to clarify an important point that we thought may have been overlooked at the time of drafting that we wanted to bring to your attention and to clarify some minor language.

CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION

Mr. Devlin: Mr. Chairman, thank you for identifying us. I am Gerald Devlin, president of the Canadian Life and Health Insurance Association. As you have stated, I have with me Alan Morson, who is at my immediate right. Alan is a vice-chairman of Crown Life. He is also a member of the council of our association and represents his company as such and is a member of our task force on legislative review, which is devoted to looking at matters of this kind that are coming before your committee. Doug Kent is our vice-president and senior counsel and has been most involved in this particular situation.

You have a copy of our brief. I am sorry if the supplement has just reached you. I do not think there is very much in it that should cause you too much difficulty since it is not very lengthy. In fact, our whole submission is not very lengthy. We are not here as a matter of detail but as a matter of broad policy, since we realize this is an enactment affecting the Ontario loan and trust company industry in Ontario and not the life and health industry. We did feel, I think correctly, that anything done as a matter of broad principle in the laws affecting the Ontario loan and trust companies industry would likely have some application to us when our own laws become a subject for consideration.

Therefore, I think you will find our brief merely tries to tackle the situation in a very broad way. I might point out that in the introduction, for those of you who may not have had an opportunity to read it completely, we state that we represent the life and health insurance industry in Canada and have no representation whatsoever for the casualty side of the business. That is another entire insurance industry in itself and has its own trade association representing it. We represent 111 companies in Canada with 98 per cent of the premium income, so I think we can safely say that we do represent the industry.

Mr. Kent has had most to do with the actual putting together of the brief and the matters contained in it. If it is all right with you, Mr. Chairman, I will ask Mr. Kent perhaps merely to paraphrase and highlight the elements of the brief itself. Mr. Morson will have some comments to make about it and perhaps I will join in some of those.

Mr. Kent: In our submission, as Mr. Devlin says, we have introduced ourselves. In the supplementary, we have added one paragraph to point out that the original submission, as you will see from the date, was done in November. Actually, most of the work was done prior to that and we were working with an earlier version of the bill which did not have the minister's amendments. Like the members of the Canadian Bar Association--Ontario you were listening to, we

did not have the benefit of the later updates. What we are talking about, primarily, is policy.

The other thing we point out is that there have been a couple of major developments since that time, one of them being the so-called Hockin paper dealing with this question from the point of view of the federal jurisdiction, and there have been the Ontario Securities Commission regulations that have just come out. These give us some concern and I will get to that a little later.

Because we have seen some divergence recently, if I can put it that way, between the positions taken federally and the positions taken by Ontario, we have some real concerns about what we would term "harmonization." We think it is very important that provincial legislation across Canada be in harmony and that it dovetail with the federal regulation. In our industry and with the trust and loan industry, it has been a divided jurisdiction, and in recent years anyway, it has worked reasonably well; maybe I should say more so in connection with our industry because we have a very proud record of no failures in the life and health industry. No policyholder has ever not received the benefits promised on maturity to him in his policy.

This dual regulation has worked and we hope that this will continue to be the case and that any differences that seem to be appearing can be resolved quickly. This is just a matter of general application.

Our brief then deals with the main matters that are listed in the background paper. We follow them through first and then we deal with some specific matters.

The first is the matter of public confidence and depositor protection. We agree that public confidence is certainly important, but we do not see that it is necessary to impose such rigid restrictions on the operations of the financial institutions that they cannot innovate and be flexible in their operations and so on. To look at the ridiculous, as I have said here, you could require all financial institutions to invest only in government bonds. You would have perfect safety, but how would you finance any of the businesses that need to be financed in Ontario and that are financed by the financial institutions? You need to have these other investment vehicles. Some of them carry more risks than others. You are investing in various types of corporations, in various communities and so on. So confidence, yes, but let us not make it so restrictive that there is not this flexibility.

Up to now, in the investment area there has been a list of approved investments, if you will. There have been very rigid requirements as to what the financial institutions can invest in. We have recommended the prudent man approach. This is mentioned in this paper as being adopted, and yet when we look at specific sections of the act we see that there are still some very strict limits or quality tests that are imposed.

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Rather than having these tests, we think it is much more important to have some of the more general criteria, such as that assets match liabilities, that portfolios be diversified by type of investment and by geographical location, that there be disclosure to the regulators, that the regulators be empowered to act quickly and effectively, that valuations be realistic and that capital and surplus requirements take account of size.

Many of these things are accomplished within this bill. What we are saying is that we feel those things are the necessary controls and not the specific quality tests that are still there. We say there should be a balance between guarantees by the government and the fact certain risks are involved. You cannot legislate or regulate absolute safety. People, obviously, recognize that there are those risks out there.

The next area we get into is one we feel is very important. I will follow these through and emphasize the ones that are of particular importance to us. One is the so-called equals approach. The other has to do with pooled investments which is item 10 in our submission; self-dealing is item 5 and the list of investments I have just mentioned is a little later on in this brief as well.

On the equals approach, I refer you to the revision that is contained in our supplement. It was brought about by developments since this was first written. This gives us a great deal of concern. As you know, most of the life insurance companies operating in Ontario, certainly the Canadian companies, are chartered by the federal jurisdiction. A number of others have been chartered in some of the provinces--not many of them--and a lot of the companies come from the United States and from European jurisdictions.

To impose conditions that would apply to the operation, the corporate governance and so on, of those companies in their home jurisdictions, we feel would create a great deal of difficulty. It could create conflicts and confusion and we do not really see that this is a necessary approach to the problems that this seems to be attempting to meet.

We point out that New Brunswick, in our opinion, has adopted an approach that seems to make more sense to us in that it has said that companies that are regulated by a "designated jurisdiction" would be subject to the rules and regulations of that jurisdiction. It would then look to each of the jurisdictions that the companies are coming from and ask: "Do they have proper regulation and supervision of the financial institutions? If they do, then we will not bother with it. We will let them operate in our province." Of course, it will regulate the business in the province. That is the right and responsibility of the provinces, but we feel that how they operate and how they are regulated in their own jurisdiction should be left to that jurisdiction.

In this particular case, as I have mentioned, we do have a very strong federal regulatory authority, so perhaps the province might say, "We will designate the federal authority and we will accept any federal company." Similarly, you may look at some provinces and say, "They have proper supervision." There may be some small provinces that do not. Certainly, in our industry, it is recognized that you just do not have the manpower to have that kind of supervision. Some of the provinces, for our industry at least, have said, "The supervision should be with some other authority and we will look to it."

We think the so-called equals approach will create some problems. Later on in our brief, there are a couple of areas we have pointed to specifically where this could result.

The next item is a strong board of directors and managerial responsibility. As I say, we are not critical of all of the bill. As a matter of fact, there are a number of things we think are very good. This is one area where we support what is being done. We think this is the kind of thing that

is necessary to ensure the proper protection of our policyholders or depositors with the trust companies.

I point out that in our opinion, in any event, it is a little difficult to ask directors to serve two masters and to require by legislation that they look after the interests of both their shareholders and their depositors, although they will do this to a large extent.

Mr. Morson is vice-chairman of a stock life insurance company. The life insurance companies have participating and nonparticipating policies. The participating policies are ones wherein the policyholders share in the investment earnings of the company. They are also entitled to put a certain number of directors on the board. On the board of Crown Life, there are policyholders' directors who are elected by the policyholders and there are also shareholders' directors.

Obviously, the directors have to consider both sides, but to have some specific directors who are looking after one interest or the other has worked out very well for these companies. They can put other arguments forward so that in reaching a decision all interests are being looked after. We like the idea of requiring outside directors who would represent the interests of depositors and others. You could even have depositors' directors if this is seen to be necessary, but we are not putting this forward as something that is important.

The next item we deal with is the ban on self-dealing. I would like to ask Mr. Morson to speak to that because of his own experience within the board and the operation of his own company.

Mr. Morson: The reason I want to comment on self-dealing is that I am a little concerned that there is some lack of clarity, particularly in the mind of the public, as to what is banned and what is not. There are some transactions that are clearly banned but there are some exemptions, and the definition of these exemptions, I think, is what is unclear. I am a little concerned that the baby could get thrown out with the bathwater.

It is very clear that the transfer of a major asset from a company to another related company is something that is banned, and I think that is a very sensible thing to do because that is a dangerous type of transaction and very difficult to monitor appropriately.

On the other hand, there are many services provided within corporate groups that as far as efficiency is concerned it is very much in the interest of the consumer that they continue. I am talking about management services, investment services, data-processing services, public relations and human resources, where one body can deal with a number of companies in a group and provide a great deal more efficiency by so doing.

I do not believe those types of transactions are a cause for concern in self-dealing because the costs of this type of service are easy to determine. In some cases, the companies may be specialists in providing this type of service and they provide it to arm's-length clients, and therefore, there is a market value that can be put on the service that is provided.

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We believe in the partial ban, but we want to make a clear distinction between services and the transfer of assets. We see a three-phased approach:

The first would be for the transfer of assets where either it should be banned or should only be allowed with prior regulatory approval; the second would be transactions that could be passed upon by an independent committee of the board that does not have any potential conflict of interest in the transaction; the third would be those services that are trivial in nature and to have regulations for them or to ban them is not in anyone's interest.

Mr. Kent mentioned that in my company, Crown Life, we have policyholders' directors. At any time, we are required to have at least one third of the board representing policyholders. They are not allowed to hold shares in the company. We have operated with an independent committee of the board on transactions where we are making transfers of assets from one company within the group to another and it has worked very effectively. Our appeal is that we support the controls that are being put in, but it is important to make sure we do not stop transactions where an abuse is not likely to exist or where the cost of the transaction is very small.

Mr. Kent: The next two items we have dealt with may go hand in hand. This deals with what we call proactive regulation and institutional flexibility.

It is now almost two years since our association made a submission to the government of Ontario called Financial Services for the Future in Ontario. This has been filed with the ministry and a number of others. These are our recommendations for the updating of the insurance legislation in this province as it affects our companies.

One of the things we are asking for is increased institutional flexibility to allow our companies to participate in other activities in the financial sector. We did not see very much in Bill 116, as far as the loan and trust companies were concerned, to allow them to expand, except for the right to purchase investment dealers--not much beyond that--as opposed to the federal government's paper which would allow trust companies to get into just about anything in the financial services sector.

Tagged with this is, if the companies are going to have more powers, we think the regulators need more powers. This is why we agree with the changes being made, with the increased powers being given to the regulators, the requirements for notice and the rights of the regulators to step in and act very quickly if some company seems to be getting into trouble. It is important, from our point of view, that the action of the regulator not destroy public confidence; i.e., he has to have sufficient power so that if he moves in he can prevent runs on the company, if you will, so that you do not have everybody trying to take out his money all of a sudden, because this does create a great deal of trouble.

We have seen that there are notification and appeal procedures that we feel would, as we say, prevent a heavy-handed approach and would give the corporation the right, if it feels it is being hard done by, to use an appeal procedure to try to preserve the business.

The next item is the question of nonresident ownership. Mr. Morson, would you like to speak to that?

Mr. Morson: We have suggested in the brief that the restrictions on nonresident ownership go well beyond what we think is necessary or required to maintain a viable Canadian industry. The issue, to me, is one of reciprocity. Ontario and Canadian financial institutions can and should play on the

international stage. Any restrictions which we place on foreign ownership can invite reciprocity in other jurisdictions. I think it is an important policy issue to ensure that financial institutions that are resident in Ontario can compete in other jurisdictions in Canada and in the rest of the world, particularly the United States.

I do not think enough consideration has been given to the potential problem of an Ontario-based company dealing in the United States or other areas after such legislation is passed. At the moment, there is a very favourable environment in the United States. Although our company is an Ontario company, a Toronto-based company, and although our head office is here and much of our work is done here, 85 per cent of our premium income comes from outside the country. More than 70 per cent of that income comes from the United States. It is a very favourable environment to operate in at the moment. The policy concern is that in protecting Ontario residents we overreact and invite reciprocity in other jurisdictions and make it difficult for us to operate.

Mr. Kent: Following that, we have dealt with a number of specific provisions that are in the act. I do not think I want to spend too much time on them because our time is running short and we do want to leave ourselves some time for questions.

I would mention again item 12 on page 9, the quality test. We do not think it is necessary to have those specific tests that are in section 160. We point out that the Pension Commission of Ontario has also endorsed the prudent-person approach, as has the federal government in the Hockin policy paper that was recently released.

On an item dealing with ownership, you say share transfers that would result in the purchaser and those related to him owning more than 10 per cent of a corporation being subject to the permission of the superintendent, which is a continuation of the existing situation. You point out there is a concern that this section--subject to section 39, which is the one dealing with the equals approach--means that all extraprovincial companies would have similar restrictions applied. We feel that is maybe going a bit too far.

In the next paragraph, we also suggest that recognition should be given to the special status of investments that are made on behalf of Canadians, regardless of the residency of the investor. It is a very difficult question that our member companies have been faced with over the years. You have definitions of nonresidents in legislation that is designed to preserve, for instance, our broadcasting, financial institutions and so on and so forth, because the definition of nonresident does not recognize that, at least in the case of a life insurance company such as the Metropolitan, which does business in Ontario on a branch basis and which is holding the money for Canadian policyholders.

In our opinion, there should be no difference, whether a person buys his life insurance policy from Canada Life or from Metropolitan Life, as far as the investments of that company are concerned. We submit that restrictions on investments that are aimed at nonresidents should recognize that the investments that are made by Metropolitan Life are made for Canadians, and they are passive investments. They are not taking an active interest in the operation of the company being invested in. It is an investment that is helping Canada.

1130

I could mention one example that relates specifically to this province. You will recall some time ago that the land transfer tax was amended to provide a special, fairly high tax on transfers of land to nonresidents. This was, I think, when a lot of people were buying up Ontario property. This meant that some of our nonresident member companies would have this special tax apply unless there were some provisions that would relieve them of this. After some lengthy dealings with the department, we were able to get a special amendment to the regulations that would allow a certificate to be filed so the investment could be made and the higher rate of tax not apply. All we are saying is that we feel that kind of recognition should be given.

In our supplement, we have noted that there has been an amendment added to recognize the special place of the Canadian mutual life insurance companies. As Mr. Morson pointed out, a substantial portion of his company's business is done in the United States. The same is true of some of the mutual life insurance companies, such as Manufacturers Life Insurance that is operating here and Confederation Life Insurance. They do a large amount of their business in the United States. They are mutual companies. A large portion of the business they are doing is on a participating basis.

Therefore, the people who can vote for the election of the directors, in this case all the directors, are nonresidents. Again, your definition of nonresident, in general terms, would turn that company into a nonresident company. You may recall a few years ago that there was a little bit of controversy regarding Manufacturers Life and the fact that it was holding shares of Canada Trust. This is before Canada Trust was taken over by Genstar and then Imasco. Canada Trust would not allow Manufacturers Life to vote the shares it had because it said, "You are a nonresident," and it had legal opinions to this effect.

Specifically, this bill will eliminate that problem by recognizing that those companies situated in Canada, with a head office in Canada and with 75 per cent of the board being Canadians, are Canadian for these purposes. We certainly appreciate that this has been done, and it does remove a big problem.

Item 10 deals with the regulation of pooled funds. Again, we are talking policy because what we are concerned with is the application of this idea to the life insurance companies. In the case of the trust companies, they do have pooled funds that are set up for their clients, particularly in the case of pensions. In the case of the life insurance companies, we do have the same type of funds. As well as the general funds of the companies, they are also permitted to set up funds where the liabilities are tied directly to the assets of the funds. The life companies, therefore, will have specific funds. Some of them are pooled. Some of them are specific for a corporation.

All along, and as we pointed out right from the time of the report of the Canadian committee on mutual funds and investment contracts, these have been regulated by the superintendent of insurance because they are issued by insurance companies, and not by the Ontario Securities Commission. This has been achieved through specific provisions in the regulations under the Securities Act.

At one time, we got to the point where we were talking about an amendment to the act itself that would exempt the products issued by life insurance companies. The two chairpersons, the superintendent of insurance and the then chairman of the Ontario Securities Commission, were in agreement that this should be done, but they acknowledged that it was a low-priority matter because, in effect, these products were not subject to OSC jurisdiction

because they had exempted them. This has continued for 10 or 15 years, I think.

There have been no problems that we have seen. The superintendent is exercising effective control over these products. He has enacted regulations that are similar to the requirements of the Securities Act. Instead of a prospectus, we issue information statements. The requirements for prospectuses are not quite the same as the requirements for our products because they are different; and the superintendent's regulations recognize these differences and the differences in the responsibilities.

We can see no reason why, all of a sudden, this regimen should be changed so the securities commission now takes control of these products. In addition, it would create a lot of problems for our companies in that they would then have to be registered with the securities commission, the salesmen would have to be registered with the securities commission and so on, yet they are dealing with specific products that are basically life insurance products, although they are products that are similar to the type of thing that is under the control of the securities commission.

The recent proposed amendments to the Securities Act that came out have removed the exemption for our products. When this was written, back last November, we could see this was a possibility because of the change in the Loan and Trust Corporations Act. Now we see that things are moving a little further along. We have made a strong submission to the securities commission and will be talking to the minister's officials, at an early opportunity, with a view to retaining this control within the superintendent's office.

Those are the main matters of concern, and we are open to questions from any of the members.

Mr. Ashe: See if there are any responses from staff on any of the points made.

Mr. Haggerty: I have just one question. It should not take too much time. I understand, from your comments this morning, you are telling the committee there is sufficient protection in Bill 116 to provide the protection necessary to the depositors. Am I correct in that? The bill will cover any misfortunes that may happen? I am thinking of Astra/Re-Mor, Greymac and those. Do you think this bill will provide the protection to the consumer out there, the depositor, that this will never happen again?

Mr. Kent: I could never say "never." I do not think anybody could ever say "never." What we are saying is we see that many of the problems that led to these failures will be corrected by these additional authorities, controls and so on that are contained in this bill. We cannot go beyond that. I do not think any human being could go beyond that.

Mr. Haggerty: Because at one of the pages in your report you do say that there are loopholes that financiers will find to get around it.

Mr. Kent: I was talking about the list of securities and the quality tests for securities. I do not think I was talking about this type of regulation.

Mr. Chairman: Mr. Ashe has suggested that we hear some response from the ministry, if the ministry wishes, with regard to--

Mr. Ashe: Either staff or the superintendent, as the case may be.

Mr. Wilbee: The thing I would like to point out is that many of the issues raised are high-policy issues and issues that the committee will deal with in clause-by-clause. For example, in the issue of the prudent-investor approach rather than the approach that we have taken, the approach taken has been more or less in line with directions we have received from the white paper and subsequent hearings, that it is quite a bit less restrictive than the current regime, as was pointed out, but it falls short of the total prudent investor approach which is being advocated.

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I think it is a matter of balance and balance as policy. I suppose where that balance should sit is something the committee will have to judge. Where it is in the bill now is where we felt was a reasonable place for the balance to be.

Again, the equals approach is a policy issue. It has its merits, and it has its detractors. It was handed by the white paper and by the committee hearings as an imperative to the ministry in developing the legislation that the principle was that all trust companies and loan companies operating in Ontario should have the same rules and regulations.

A corollary to that is that if some of these rules and regulations of other jurisdictions are more favourable, then they should be adopted here. If they are less onerous than what we impose on Ontario companies, perhaps the Ontario rules should be relaxed. It really begs the question. If there is something inappropriate about the regulations in the bill, they should probably be dealt with on an issue basis, but it is really a policy question, and we have had no option in the equals approach in terms of our efforts at drafting the bill. It has been a given.

On the board of directors approach, I took a supportive comment. Therefore, it would not require much in the way of comment from us.

On the ban on self-dealing, once again we have a policy directive, reinforced quite heavily by the Ontario Task Force on Financial Institutions, which seems to have a different view in that it sees all self-dealing as potentially harmful. A total ban with limited exceptions was the recommendation by that committee, and that is the recommendation reflected in the bill as it sits today.

I took the comment on proactive regulation and institutional flexibility as an essentially favourable one, and therefore I will not comment further on that.

On nonresident ownership, I am not sure from the comments whether the gentlemen are privy to the latest change, which in effect permits new loan and trust companies to start up in Ontario under totally foreign ownership. That preserves the so-called 10-and-25 rule; that is, 10 per cent to any one nonresident and 25 per cent in aggregate to all nonresidents. That must be preserved in the case of existing loan and trust companies. That would seem to relieve all the known concerns that we are aware of.

The issue of foreign loan and trust companies coming into Ontario is not contemplated, because certainly trust companies are uniquely Canadian and any foreign groups coming in would undoubtedly form a subsidiary to do that kind of business in Canada, in any event.

The share transfer approval is the same as is currently in the act, and it would extend itself, as you point out, to transfers for companies that are not Ontario incorporations. That again is a policy matter that we interpreted as applying in that case and therefore it applies in the bill.

I do not believe I can say much about the comment on pooled funds. I see that as a commentary on the Ontario Securities Commission proposed regulations, and I do not have the mandate to speak in any way on behalf of the Ontario Securities Commission, so I will decline to comment on that item.

Mr. Chairman: Thank you very much, and thank you to the witnesses. I think we gathered the tone of your submission. We appreciate it very much.

Mr. Devlin: Generally, just in conclusion, it is unfortunate that we are dealing with legislation at this time in Ontario's history with financial institutions. We had a very unfortunate incident a couple of years ago, of recent memory, and I think this has caused, legitimately, a sort of overreaction or oversensitivity to the situation that may not do well to the balance we were speaking of.

I think Ontario wants and needs a dynamic financial services industry in this province. We have other provinces that are actually competing with this province to do that and they are not too far away. I would like to see Ontario maintain the pre-eminence I think it already has.

We do not deny there need to be balancing items, but we think this area needs to be looked at very carefully.

Mr. Taylor: Some of us will see that you do not overreact.

Mr. Chairman: We have a built-in institution here of sober second thought.

Mr. Ferraro: Second thought, anyway.

Mr. Chairman: Now we have the Ontario Association Appraisal Institute of Canada, represented by Mr. North. You have had distributed just this morning a document entitled Market Value, which will supplement Mr. North's comments.

ONTARIO ASSOCIATION OF THE APPRAISAL INSTITUTE OF CANADA

Mr. North: I am representing the Appraisal Institute of Canada, more particularly the Ontario arm of the national organization. I will be addressing only two small points within the bill; namely, market value and lending value and the definitions thereof.

Perhaps as a way of background for the remarks I have to make and so that you can see where I am coming from, I am an independent fee appraiser myself. For 28 years, I have been an accredited member of the Canadian institute, the two main institutes in the United States and also the Australian Institute of Valuers. I have written two textbooks on the subject of the appraisal of real estate and have served as a lecturer at McGill and a guest lecturer at the University of Singapore and at Cambridge in England.

I also participated about three years ago, on behalf of the institute, in the creation of a draft regulation that was loosely entitled "Appraisal and Reporting Standards," and that was submitted. From that document evolved the

revision to the appraisal and reporting standards that govern our activities as real estate appraisers, and those have subsequently been put in force by our institute and by our fellow practitioners.

The main points of concern, as I have said, are only two items. One is the definition of market value, which appears on page 8 of the draft here. In this vein, I put together a quick synopsis of five or six other definitions that are floating about the industry at present. It is our suggestion that the most recent one, that adopted by the Ontario Securities Commission in its policy guidelines, at the top of the page, is perhaps the most comprehensive and clear definition of the term "market value."

With regard to the definition as it appears in the bill here, two words gave us a bit of cause for concern. It says "the amount." If it is a question of editing or amending the definition here, it would be suggested that the word "amount" be replaced with "most probable selling price" and the word "cash" changed to "money." As it now reads, the "amount in terms of cash" would presume an all-cash transaction as we interpret it as real estate appraisers. In the reality of the marketplace, perhaps using just the housing market as an example, there are very few all-cash transactions. The majority of purchasers have to acquire property through the assistance of borrowed capital.

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Again, if that particular definition has to be amended, we would suggest at the end of it the words "and assuming the price is not affected by undue stimulus," which is sort of the last two lines of the Ontario Securities Commission definition or the valuation standards definition just below that.

Mr. Taylor: It is really a more conservative definition by adding that.

Mr. Ashe: Is that a large or a small C?

Mr. Taylor: With a small C. You are talking about it not being affected by undue stimulus. You are adding that on.

Mr. North: Yes.

Mr. Taylor: It is really a more conservative definition.

Mr. Ferraro: Do not use that word.

Mr. Taylor: Maybe I am expressing myself--

Mr. North: I interpret that to mean more comprehensive and that it adds clarity to it. I think that is why we prefer the definition appearing at the top of the page.

Mr. Taylor: I was thinking of conservative in terms of a valuation on the books of a company, which would be more conservative in terms of a realistic price if it was not affected by a red-hot market, for example, that might be a temporary thing.

Mr. North: Yes. In that vein, your observation is very correct.

Mr. Ferraro: Although in fairness, if you are going to paint both

sides of the picture--and I am sure Mr. North would agree--in 1982, in particular, when interest rates were 22 per cent, the evaluations on the books were not always conservative in certain locales. In many respects, appraisers were bailed out because of inflation, but then we had the recession and evaluations took a tumble. The evaluation on the books was substantially higher than the market value, if you will, at that time.

Mr. Haggerty: The banks have corrected that, though.

Mr. Chairman: Let Mr. North proceed. I hope you do not mind the editorial comment, but it helps us define what you are saying.

Mr. North: That is fine.

That leads into this matter of lending value that appears on page 6. It states:

"'Lending value,' in relation to real estate, means the market value of the real estate"--and then appears a phrase that states--"reduced by such amounts as are attributable to contingencies or assumptions the occurrence of which is remote and that have increased the market value of the real estate."

In our view, that phrase, in effect, would be attended to through the application of prudent investment standards in clause (b). In other words, the essence of that lending value is that the institution should use the lesser of 75 per cent or such percentage that would account for any and all factors that perhaps would hyper-inflate the value of the property for whatever reasons are in existence at that time.

It is our suggestion that the phrase that begins with "reduced by such amounts" and ends with "the market value of the real estate" is perhaps a bit redundant in the top paragraph inasmuch as it should be attended to in clause (b). Further to that, I would say that in the estimation of market value those items should be excluded in any event because the policy standards under which we operate in arriving at an opinion of market value state:

"The following appraisal standards are prescribed in the context that it shall be improper for an appraiser"--and the first one is--"to base an estimate or opinion of market value on an estate or interest in real property on market conditions which are highly subjective, conjectural, speculative or hypothetical in character or upon the use of appraisal methodology which cannot be reasonably supported by market evidence as to the acceptance, use and applicability of such methods and procedures by persons who are involved in the management, financing, ownership, operation and transfer of the type of property being appraised."

There are a few other short paragraphs that allude to the same thing: "that it is also improper to base an estimate or opinion on the market value of an estate or interest in real property in any special circumstances which might cause or result in the price of the real property being higher or lower than the price the property would ordinarily command in a typical market transaction...to base an estimate or opinion of the market value on an estate or interest in real property on conditions, circumstances and time constraints so limited that the resultant analysis, opinions or conclusions would tend to mislead or deceive users of the appraisal report or the public at large," and so on.

These are just three clauses from the standards by which we are governed

that go from A to U in alphabetical order. The point is that in the estimation of market value to begin with, such elements should not bear on the appraiser's findings, opinions and conclusions. It is felt that even if a lending institution was concerned over and beyond what the appraiser had said the value of the property was, he could attend to reducing the loan-to-value ratio, as we say in the trade, below 75 per cent to account for whatever prudent investment standards he has to meet in his evaluation of the asset.

Mr. Ashe: I want some further clarification of this market value principle that was spoken about by Mr. North.

I appreciate that you read those right out of the guidelines for the appraisers' code of ethics, I guess it is, for lack of a better phrase. How does that come together with appraisals that are quite often before elected bodies--frankly, usually municipal elected bodies more than anything else--that puts value on property to its highest and best use, even though in most cases the zoning is not there and in many cases the official plan's indication is not there? What you just read to me seems to be in conflict with that. How do they come together? I am sure you will agree that is not particularly uncommon.

Mr. North: No, it is not. One of the guidelines in our practice is to consider the highest and best use of a property in the evaluation of those lands. However, that is part of the reason that our standards state we shall not consider such matters that are highly subjective, conjectural, speculative or hypothetical, such as the possibility of some remote rezoning.

Mr. Haggerty: A highway going through or something like that.

Mr. North: A highway going through, or 25 people moving into the immediate area within the next year.

Mr. Taylor: Do you not consider that?

Mr. North: We consider it. If it is a probability, it bears on value. If it is just a remote possibility that has no rational foundation, then it should be excluded.

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Mr. Taylor: It has to have some rational foundation, but normally what you would do, I would assume, is put a present value on that speculative aspect, would you not? In other words, what you are doing is putting a present-day valuation on future potential.

Mr. North: Yes, we do, and the operative words in the whole exercise are, is the future potential a reasonable probability or a highly speculative possibility? The latter we should discard from our approach to getting to value.

Mr. Ferraro: By way of preface, I want personally to thank Mr. North. I was a candidate for membership in the appraisal institute for 13 years before I entered this life of crime and I want to tell the committee that the appraisal institute has come a long way. Under the leadership of individuals such as Mr. North, the respectability and the ethics of all appraisals in Ontario in particular, in my view, are in good hands.

Mr. Chairman: You were a candidate for membership for 13 years?

Mr. Ferraro: For 13 years.

Mr. Ashe: And was never accepted. That shows that your standards are great.

Interjection: It does not necessarily.

Mr. Ferraro: It is just like politicians to spout off before they know the facts.

Mr. Ashe: That is what you said.

Mr. Ferraro: That is right. I was a candidate for membership, but as I am sure Mr. North could explain, one cannot become a member until such time as one is inclined to finish all the requirements. Part and parcel of that was basically a thesis or an appraisal submission, which, quite frankly, I never bothered doing. So you remain, technically, a candidate. It has nothing to do with my ability.

Mr. Ashe: Or lack of same.

Mr. Ferraro: Having said all that, I do want to thank Mr. North for his presentation and for the brevity thereof. I wish some of my colleagues would exercise the same brevity.

Could we ask the ministry to respond to the new definition of "market value," which I am inclined to accept, and indeed to the other assertions made by Mr. North?

Mr. Wilbee: I would be happy to give a comment. Certainly, this is an area that was very heavily considered at the time of the drafting. As you can see, it was even recently amended.

Just to respond to some of the specific points raised by Mr. North, I would have to start off by saying that none of us would disagree with anything he said, as a matter of principle. I think the differences may be in how it gets expressed in legal terminology.

I am told that, for example, the use of the term "cash" as opposed to "the amount received" is very specifically chosen because an amount as defined in a purchase-and-sale agreement, as Mr. North pointed out, can include, for example, mortgaging. Depending on the type of mortgaging, the interest rate and so on, that could represent a greater or lesser amount in actual present-day funds, especially in some of the complicated industrial dealings that go on. So what is intended here by saying "cash"--and my legal adviser is telling me this is what it says--

Mr. Ferraro: I do not understand how you can have a distinction in cash based on present-day funds.

Mr. Wilbee: I guess the simplest way to say it would be if I sold you my house for $100,000 and took back a $50,000 mortgage. If current rates are nine per cent and I took back the mortgage at nine per cent, then the $100,000 would probably be a reasonable representation of the value of the house. However, if it was two per cent and I took that mortgage and went to a dealer to sell it, I would probably get less than $50,000 for it. If your creditworthiness was lower, I might get even less, so that the real value of my house might turn out to be $80,000 rather than $100,000.

Mr. Ferraro: Although you qualified it, and I understand what you are saying, by saying present-day cash, as of that present-day evaluation--the evaluation could conceivably change within 24 hours for some unknown reason.

Mr. Wilbee: Certainly.

Mr. Ferraro: But in present-day cash, if you have a mortgage for \$50,000, it is \$50,000 in absolute terms.

Mr. Taylor: The price of the house could be \$100,000 but really--

Mr. Ferraro: I know there are incentives that will facilitate the sale.

Mr. Taylor: If the vendor took back a third mortgage for \$25,000, it would be added on, maybe, to the price. The price of the house would be \$110,000.

Mr. Wilbee: The intent is to avoid warping the value of the property by constructing an elaborate purchase-and-sale agreement, and I think there are a number of ways that can be done if one has a mind to do so. The intent here was to avoid that. that is all I can really say. Lawyers tell us that is what it says.

Mr. Ferraro: I do not want to nail this thing to death. What do you do when you have a situation--and I have seen it and I am sure Mr. North has seen it--where there has not been a positive mortgaging arrangement made? In fact, it has been a negative mortgaging arrangement, so it subsequently affects the valuation.

Mr. Wilbee: Negative? I am not sure what a negative one is.

Mr. Ferraro: In other words, somebody locks into a 10-year or a 25-year mortgage at a high interest rate.

Mr. Wilbee: That would have the effect of increasing the value of the home, presumably.

Mr. Ferraro: No, decreasing it.

Mr. Wilbee: I do not know to whom. If I give you a \$50,000 mortgage on my home for 20 per cent when the going rate is 10 per cent, I can very likely turn around and sell that mortgage to a dealer for more than \$50,000, because it is carrying a 20 per cent interest rate, just as bonds on the open market sell at a premium if the interest rate is above current rates. In that case, I would say the implied value of my home is more than \$100,000. I hope I am answering the question.

Mr. Ferraro: I do not agree with that.

Mr. Ashe: It does not make sense to me. It depends on whether the mortgage has any payout provisions.

Mr. Ferraro: The mortgage has more value, but the property does not.

Mr. Wilbee: If you give me the mortgage in payment, then the implied value is higher.

Mr. Ferraro: Then the mortgage has more value, but not the real estate per se.

Mr. Wilbee: Rather than trying to respond to that, because I think we are running at cross-purposes, the intent of what the definition is saying is that the market value, which later translates to lending value, should be based on what would be a cash price. Again, we are talking about value, rather than the actual price of a home. The value on which a mortgage would be given should be based on what would be given in cash if cash were the medium of exchange, although it is recognized that in some cases it is not the only medium of exchange, but cash being the proper way of setting a value upon which a mortgage can be given.

Mr. Taylor: You might have to liquidate, and you would be looking for cash if you had to liquidate the asset.

Mr. Wilbee: Indeed. The whole purpose of it is to protect the value of the mortgage in the event of default. The recourse is to repossess the property and sell it for costs.

Mr. Morin-Strom: How do you do that when, as happened in the early 1980s in Calgary and Vancouver, house prices perhaps double in market areas? At the time a mortgage may have been taken out, in 1982, 1983 or 1984, they may have had a value which had increased from $100,000 to $200,000, but today they may have a value of $130,000 or some such figure. Obviously, values can fluctuate quite considerably from year to year or even within a five-year time frame of a mortgage.

Mr. Wilbee: Maybe I should clarify that the issue here is strictly at the time a loan is given. The appraisal is made and is based on current values.

Mr. Ferraro: Does that not detract from what you said about the interest rate having an effect on the value of the mortgage? We are talking present day, not the present worth of future benefits. That is the point I was trying to make.

Mr. Wilbee: I was only trying to give you an example of how a deal could be constructed to imply a greater value on a property than really exists.

Mr. Ferraro: I understand what you are saying, but my whole point in the definition--and I will shut up after this--is that you qualified what you said by saying "present day." I say that if you have a mortgage of $50,000, irrespective of the interest rate or anything else, as of that day, that is what that place is worth. I do not see the preoccupation with cash, as of that present day.

Mr. Chairman: I think what Mr. Wilbee said is correct; we are at cross-purposes. I understand now what you are both saying. You are talking about different things, really. If I may, I will go on to another topic.

Mr. Ferraro: Maybe Mr. North would like to respond to that.

Mr. Ashe: Is there any concern about the last part that Mr. North suggested we add?

Mr. Ferraro: Let him respond to this first.

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Mr. North: In reply, the main word in that entire definition is the word "cash" that gives us a few problems, because cash has the implication that it is a bail-out price. To come up with a cash price for an asset then, theoretically, one should have to look around and find sales of other properties that sold for 100 per cent cash to extract one's hard data to come up with an opinion of value.

In the reality of the matter, we would have to look until the cows came home to find such transactions because in the vast majority, in the high 90 per cent, properties trade cash to mortgage, as it were, in typical transactions. So "money" is more explicit. It is clearer. It is understood better and, in every definition that has ever been printed referring to market value, it is always said in terms of money, meaning not in terms of services and favours but in terms of money. Cash has an awfully powerful implication.

Mr. Ferraro: Or even selling price.

Mr. North: Yes. The only other thing I would add is that we would look forward as an honour to assist in the preparation or whatever of any regulations that flow out of this act with regard to appraisal and reporting procedures. It would be an honour.

Mr. Chairman: I am sure the ministry has heard that statement, and it is a case, if you wish, to lobby any committee members privately as to any amendments. That is certainly quite conceivable. Are you finished, Mr. Ferraro?

Mr. Ferraro: I was going to ask, as a last comment, has the ministry had any contact with the Ontario Association of the Appraisal Institute of Canada?

Mr. North: This was done when Mr. Elgie was in office, at just about the time the election was coming up. What happened to the whole matter at that time, I do not know.

Mr. Ferraro: But you have not been contacted since.

Mr. North: No.

Mr. Chairman: Mr. Partington has a question.

Mr. Partington: I will pass on the question. I tend to like your comments. I suspect that appraisers, in dealing with fair market value, come up with value interest rates, and terms are secondary to the value. That is the purpose of an appraisal.

Mr. North: This is why we have created so many clauses within our own standards to cover all these areas that you cannot cover in a bill. They have to be within the regulations or the standards.

Mr. Ashe: I just have to comment a little bit on this. Frankly, I can see both sides of this issue, having been somewhat involved with the Ministry of Revenue for quite some time. I know what the ministry is saying because you see, again, it varies depending on market conditions, etc., real estate and businesswise. Prices are not necessarily the price, particularly on industrial, commercial and multi-unit buildings, but probably not so much, frankly, on single-family dwelling situations, where the deal really creates a price that is somewhat artificial.

On the other side of the coin, I can sure see the concern that you have, because there is no doubt that word "cash" jumped right out, as it did to me when I first read it. It says a kind of a distress sale, because all cash in hand is not too practical. Hopefully, somewhere in between, the protection that the ministry wants, which in my view is very valid, has to be there, and yet not give the impression of the distress type of sale for only the person who can come with all the cash in hand. In natural terms, even for most people, believe it or not--and I am sure you can substantiate this, and if we had realtors here they would substantiate it--even many mortgaged homes are cash sales in the sense that somebody is paying out the one and maybe putting on his own. They are cash in that sense, but we have to make sure that both of these views are adequately protected.

Mr. Chairman: With that reasoned approach from Mr. Ashe, we will close off our submission this morning. Thank you very much, Mr. North, for bringing all that to our attention.

We have lunch outside. Mr. McClellan will be with us shortly to deal with the draft of the prebudget submission he has prepared. We will break here.

The committee adjourned at 12:15 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

LOAN AND TRUST CORPORATIONS ACT

WEDNESDAY, APRIL 8, 1987

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Epp, H. A. (Waterloo North L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:
Partington, P. (Brock PC) for Miss Stephenson

Clerk: Carrozza, F.

Staff:
Evans, C. A., Research Officer, Legislative Research Service

Witnesses:

From the Investment Funds Institute of Canada:
Douglas, K. A., President
Pittet, D. G., Secretary and Legal Counsel

From the Ministry of Financial Institutions:
Offer, S., Parliamentary Assistant to the Minister of Consumer and Commercial Relations (Mississauga North L)
Reid, D. J. M., Director, Loan and Trust Corporations Branch
Parrish, C., Director, Policy and Planning Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, April 8, 1987

The committee resumed at 2:08 p.m. in committee room 1.

LOAN AND TRUST CORPORATIONS ACT
(continued)

Consideration of Bill 116, An act to revise the Loan and Trust Corporations Act.

Mr. Chairman: Our committee is unquestionably the hardest-working committee in the history of the provincial Legislature and, according to the Toronto Star that is going to come out later this week, we work harder than the Premier (Mr. Peterson) or at least as hard.

We welcome members of the Investment Funds Institute of Canada. We have your brief in front of us. It was distributed this afternoon and I have had a chance to peruse it. Mr. Douglas, are you prepared to say something with regard to that?

INVESTMENT FUNDS INSTITUTE OF CANADA

Mr. Douglas: Yes, I am, Mr. Chairman. First, I would like to thank the committee for having afforded us the opportunity to appear. My name is Keith Douglas. I am and have been for some time the president of the Investment Funds Institute of Canada. With me is Doug Pittet, who is secretary and legal counsel to the association.

As we stated in our short letter of submission, we are the representative association for the mutual fund industry in Canada. At the end of last year, our members collectively held some $17.5 billion in assets on behalf of approximately 1.5 million Canadian investors. It may interest you to know that is up from $4.1 billion in 1982, just four years previous.

It has been only in very recent times that the mutual fund industry has grown to a level of reasonable significance among financial services and maybe--and we find frequently--that is the reason the special provisions that are made to apply to mutual funds sometimes get overlooked in the course of things, because of our relative size.

Our concerns in connection with the proposed bill relate simply to the provisions of section 211. Our letter of submission focuses attention solely on that particular section, and it is the question of requiring that only registered trust corporations be trustees.

If I could ask you just to have a peek at the chart we drew on page 2 of our letter, you will note that, of all the 232 funds which are within our membership, 74 of them at the time of the preparation of the letter and now I guess 78 of them--because at an executive committee meeting this morning, we admitted into the membership four new funds which are self-trusteed--would be affected by the proposed changes found in section 211.

It was approximately 30 years ago that the first mutual fund trust which

was self-trusteed by the manager-trustee was formed. During that period of time, manager-trustees in an increasing way have performed the responsibilities that are required under the trust indenture or the declaration of trust, I think it is fair to say, without criticism of either their performance or their behaviour.

The nature of a declaration of trust or a trust indenture--and I do not want to preach here but just to explain--is simply to prescribe the services and the responsibilities of the trustee, to delineate some investment powers specific to that particular mutual fund trust, to set a standard of care that the manager-trustee should adhere to and to set the remuneration or prescribe some method by which the remuneration would be paid.

Those are special provisions usually found in those documents and unique to those documents, in addition to the regular ones such as the details of the units, their purchase, their redemption, unit-holder rights, meetings of unit-holders, distributions of income and distributions of capital gain, notices and all the other boilerplate normally included in such documents, winding-up procedures and so on.

In an odd sort of a way, a trust indenture or a declaration of trust--in this business, in any event--can be seen to combine the elements, if you will, of a constating document for a mutual fund corporation and the contract that corporation might have with its fund manager. The duties and the responsibilities of the manager-trustee are very narrow, being limited to those matters which were prescribed in the trust document. I think it is absolutely essential to say that no mutual fund management company has any desire to go outside the parameters that are prescribed by any trust indenture and hold themselves out as capable of performing activities that are normally accorded to registered trust corporations.

In addition, I think it is also germane to this discussion that we talk about the substantial body of securities law that controls the activities of mutual fund trusts, law that requires such things as the registration of the adviser, continuous disclosure rules with respect to information as well as to financial reporting, mandatory rules for unit-holder voting rights which even extend that normally accorded by trust law, filing and the annual renewal of prospectuses and so on.

We would submit to you that, having had no evidence of any need to change this long-standing activity of mutual fund management companies in so far as they act as trustees of mutual fund trusts that they manage, we find the alternatives proposed by section 211 unattractive. We can see a couple of possible results. One would be that either a fastidious trustee which manages its own competing funds would fulfil its duties completely, resulting in increased costs by way of profit to the unit-holders. The second alternative might be that a trustee may have to delegate many of those responsibilities back to the manager. In our view, it seems neither of those two results really much improves upon the present circumstances, which have existed for the last 30 years.

That is about all we wanted to say about this. I would be happy to answer any questions anybody on the committee may have, if anybody wants to extrapolate any of these ideas.

Mr. Chairman: Are there any questions from committee members? Is there a response from Mr. Offer?

Mr. Offer: I would just like to indicate to the deputant, Mr. Douglas, and to the committee members that with respect to this particular problem, the ministry is very sympathetic to the position you have taken and it is currently attempting to relook at some provisions so as to meet your particular concerns. I would just indicate that to you without going any further, because in fairness and in truth, I cannot go any further. We understand what the concerns are, we understand why you have those concerns and we are trying at this point to meet those concerns.

Mr. Douglas: We very much appreciate that. For our part, I might suggest that if there is any role we might play in helping to evolve any change or anything like that, we would be only too happy to do so.

Mr. Offer: So noted. Thank you.

Mr. Douglas: Did you want to know where to buy?

Mr. Foulds: Do you have some good advice, while we are at it?

Mr. McFadden: I wanted to ask the ministry staff who are here whether there was any objective in mind to regulate in any way the members of the Investment Funds Institute of Canada and the people who have raised these concerns with us in the fashion they are worried about or whether this was basically something you were not aware of at the time and now what we are trying to do is to resolve the issue they have raised. I am curious to know whether this was more or less an omission rather than a deliberate attempt to do something here.

Mr. Reid: It was not actually a deliberate situation. One could almost say they were caught in the cross-fire. It was our intention to limit the allowance of a corporate trustee to do the business of a trustee to registered corporations.

Ms. Parrish: If they are offering their services to the public.

Mr. Reid: It was then discovered that the mutual fund industry desired and was required by means of the Income Tax Act to have trustees in place. One way they could do it is through the process of individual trustees or, alternatively, through a corporate trustee. When we looked at the situation over the past three or four weeks, we came to the conclusion that in this particular instance there may well be a way in which we can satisfy the mutual fund industry.

Ms. Parrish: We have been actively discussing the problem with the Ontario Securities Commission, which is involved regularly because it regulates mutual funds.

As my colleague said, the basic policy principle of the bill is to protect the public by ensuring that only registered trust corporations offer trust services to the public. As Don said, this was a bit of an anomaly, because many mutual funds are trusts by virtue of necessity under the Income Tax Act.

Mr. McFadden: Mr. Douglas, it seems to me you are in luck today. Not only was the ministry not trying to regulate you in a way you did not want to be regulated, but also it looks as if it was not intended in the direction you stated. I think you got a very clear indication that not only the ministry, but also, I am sure, the committee will be very favourable to trying to address your concerns if the proper wording and so on can be worked out.

Mr. Douglas: We are very grateful for that.

Mr. Chairman: Thank you very much for bringing it to our attention. Obviously, it has been of value to you and perhaps to everybody. We appreciate your coming.

I would like to say to the ministry people that the committee decided yesterday to meet through the lunch hour today and to start meeting at nine o'clock tomorrow morning instead of 10 o'clock.

Clerk of the Committee: We have not decided yet.

Mr. Chairman: I am told by the clerk we have not decided that, but we will take whatever formal vote is necessary. I lost my train of thought.

What I am trying to say is that over lunch hour, we went through about one third, or maybe a little less than that, of our budget paper. We did that in the period from 12:30 to two o'clock. We are prepared now to continue working on that through the rest of this afternoon. I do not want to be overly optimistic, but if you could indulge us by being ready to start clause by clause at nine o'clock tomorrow morning, I will let Mr. Offer know this afternoon when we are finished whether or not that is conceivable. Does that make sense?

Ms. Parrish: Certainly. We would be delighted. We did not get the impression that we would get clause-by-clause review time, so of course we would be pleased to do that.

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Mr. Chairman: Maybe I am being too optimistic. I will find out from Mr. Morin-Strom.

Mr. Foulds: I think the chairman is being too optimistic.

Mr. Chairman: Maybe I am.

Mr. Offer: Stop playing with our emotions that way.

Mr. Chairman: All right. I will let Mr. Offer know when we finish this afternoon how far we got.

Mr. Foulds: Let us be realistic. Even if we get through the writing of our budget paper this afternoon, we would have to take some time tomorrow to approve the final draft--I do not think that would take us long--so there would be no way we could get through Bill 116 by nine. It might be conceivable that you might want to throw in an hour of it, but that is all it would be, frankly. I am not going to be obstructionist.

Mr. Chairman: Maybe it would be more realistic to suggest that we might be available to start at 11. That is what you are saying.

Mr. Foulds: Yes.

Mr. Chairman: All right. You realize that at 12 o'clock we disappear.

Mr. Offer: Where do you disappear?

Mr. Chairman: The rest of the week the New Democratic Party has a caucus and we are not allowed to sit after this week.

Mr. Offer: I am certain that one hour might be extremely productive.

Mr. Chairman: It may be.

Mr. McFadden: What we might just briefly address right at this minute is, regardless of what time we have tomorrow, whether it is three hours, two hours, 90 minutes or 60 minutes, what is it that you would like to bring to us? I know we have got all the amendments that you are proposing--the ministry amendements--which we have in the marked-up bill we have got. What else would you want to achieve tomorrow in the time that would be allowed?

Mr. Offer: Please correct me if I am mistaken. Apart from the motions that are embodied in that reprinted bill, I believe there are some other government amendments, totalling 20 or 30. Basically, that is what we would like to--

Mr. Ferraro: Substantive or typographical?

Ms. Parrish: I think the only substantive ones are the ones that have been brought to your attention. For example, we have agreed that there should be a two-year limitation period in sections 105 and 108. Those have been brought to your attention during the course of the debate.

I suggest there are a number of issues still on the table that have not been entirely resolved, such as the degree of regulatory discretion that is appropriate, the equals approach and so on. I am uncertain as to whether the committee wants to proceed in the usual way, which is to start out with the definition of "accountant," and go through from there, or whether the committee would like to debate some of the outstanding issues. Of course, that is a matter for the committee to decide. We will work our way around whatever the committee decides is satisfactory.

Mr. McFadden: Can I make a recommendation on that, just to help us here? I was not sure who was going to do this. We have gone through a number of witnesses--not an incredible number, but about eight--who made, for them, some significant recommendations. Some of them are quite lengthy, others are one or two, as for example the mutual fund group today. Obviously, we are going to have a break now. Could we get a breakdown in a very brief form of what it is--maybe you are already doing this; I notice, Franco, you are nodding--they are all saying. I have got them on these pages, but I am worried that as we start wading through this we are going to lose track of who said what and why. It would be helpful if it were set out fairly simply, with each section bulleted, what people are saying. Then we can more sensibly and practically deal with it.

I was going to suggest one thing. Going from front to back numerically may not be the best way to deal with some substantive issues, because what we may decide on some major issues that you have just commented on--later on we would have to go back to the front again and start going back through. It is several different things.

Clerk of the Committee: You could reopen a section if the committee wishes.

Mr. McFadden: Yes, that may be what we do, but I am suggesting we

should decide how we are going to approach it. It seems to me we might deal with two or three or four of these major issues that impact on a whole bunch of sections, consider those and how they interrelate, and then there are a lot of technical things. As we proceed through the bill, it makes sense to clean up some of the bigger ones, so that the ministry will know where we seem to be going. Then we go through clause by clause and maybe clean up some of the housekeeping and minor amendments.

It just seems to me there were several presenters here who have cut across a whole bunch of sections, and if we do not try to figure out what we are doing right across, then I think we would have some trouble making some sense out of this act.

Ms. Parrish: If I can be of any assistance to your staff, I will be glad to meet with her after this meeting. I have kept some notes as we have gone through as well, if that would be of any help to her.

Mr. Foulds: I think the approach Mr. McFadden is suggesting is a most worthwhile one. Technically, all we have to do is stand down all the sections of the bill until we hit one of the ones that hits something substantive that is going to deal with the others. Maybe if the ministry staff and our staff could get together and highlight three or four of those key sections that deal with substantive things, we could start on those. Once we deal with those, we can see what the fallout is on the other sections, legislatively and otherwise, and then we just go back to the beginning and do it.

Ms. Parrish: That would also give us an opportunity to work with legislative draftsmen--

Mr. Foulds: Exactly.

Ms. Parrish: --because some of these things may be somewhat difficult to draft in a bill that is this long.

Mr. Foulds: But you would know, and our staff would know, exactly what it is that you have to draft after those four or five substantive sections have been dealt with.

Mr. Ferraro: Mr. Chairman, I wonder if it is appropriate at this time. I was handed the motion that I was instructed to read. May I read the motion?

Mr. Foulds: This is not the Congress, where you say "by request" afterwards, "Let the record show that this is by request."

Mr. Ferraro: May I be so disposed to read the motion?

Mr. Chairman: You certainly may.

Mr. Ferraro: I should not be so argumentative in my comments, I suspect.

Mr. Chairman: Mr. Ferraro moves that the standing committee on finance and economic affairs take up and consider Bill 116, as reprinted to show amendments proposed by the Minister of Financial Institutions, in lieu of considering Bill 116 as originally printed.

Mr. Ferraro: It is my understanding that the effect of this motion is to have the reprinted bill form the basis of discussion in clause-by-clause review. However, we would still proceed to consider the bill clause by clause and vote on each section. Members would still have full opportunity to debate any section that concerned them and to move amendments or to vote against any aspect of the bill.

This motion would expedite consideration of Bill 116 without in any way decreasing the opportunity to explore any issue members may choose.

Mr. Foulds: You could have done it with the first two sentences.

Mr. Chairman: Delightful.

Mr. McFadden: That resolution was presented to us prior to presentation here and we are in full agreement.

Mr. Chairman: Is there any discussion? All in favour?

Motion agreed to.

Mr. Chairman: Could I have a formal motion to the effect that we meet tomorrow at 9 a.m?

Mr. Ferraro: I am going to be late.

Mr. Foulds: I may have a problem with that. Why do we not wait to see what we get done this afternoon?

Mr. Chairman: Is there a problem in putting the motion off until later this afternoon if we do not have Hansard this afternoon?

Clerk of the Committee: I will make a note of it in my minutes to move the motion.

Mr. Foulds: All right, so it is official. It is just that I have a real problem.

Mr. Chairman: Yes. I know about your problem, and I think I heard somebody else whispering over here.

Mr. Haggerty: For clarification, will there be anybody here from legislative counsel's office in case there are some questions?

Clerk of the Committee: When, tomorrow morning?

Mr. Haggerty: Whenever we are going to be dealing with the bill.

Mr. Chairman: When we get into clause by clause, we will have legislative counsel here.

Clerk of the Committee: Don Revell from legislative counsel will be here tomorrow morning.

Mr. Chairman: Any other questions? Any other housekeeping before we leave Hansard and go in camera?

The committee continued in camera at 2:30 p.m.